INSIDE: A 14-PAGE SPECIAL REPORT ON CHINA'S URBAN REVOLUTION

The Economist

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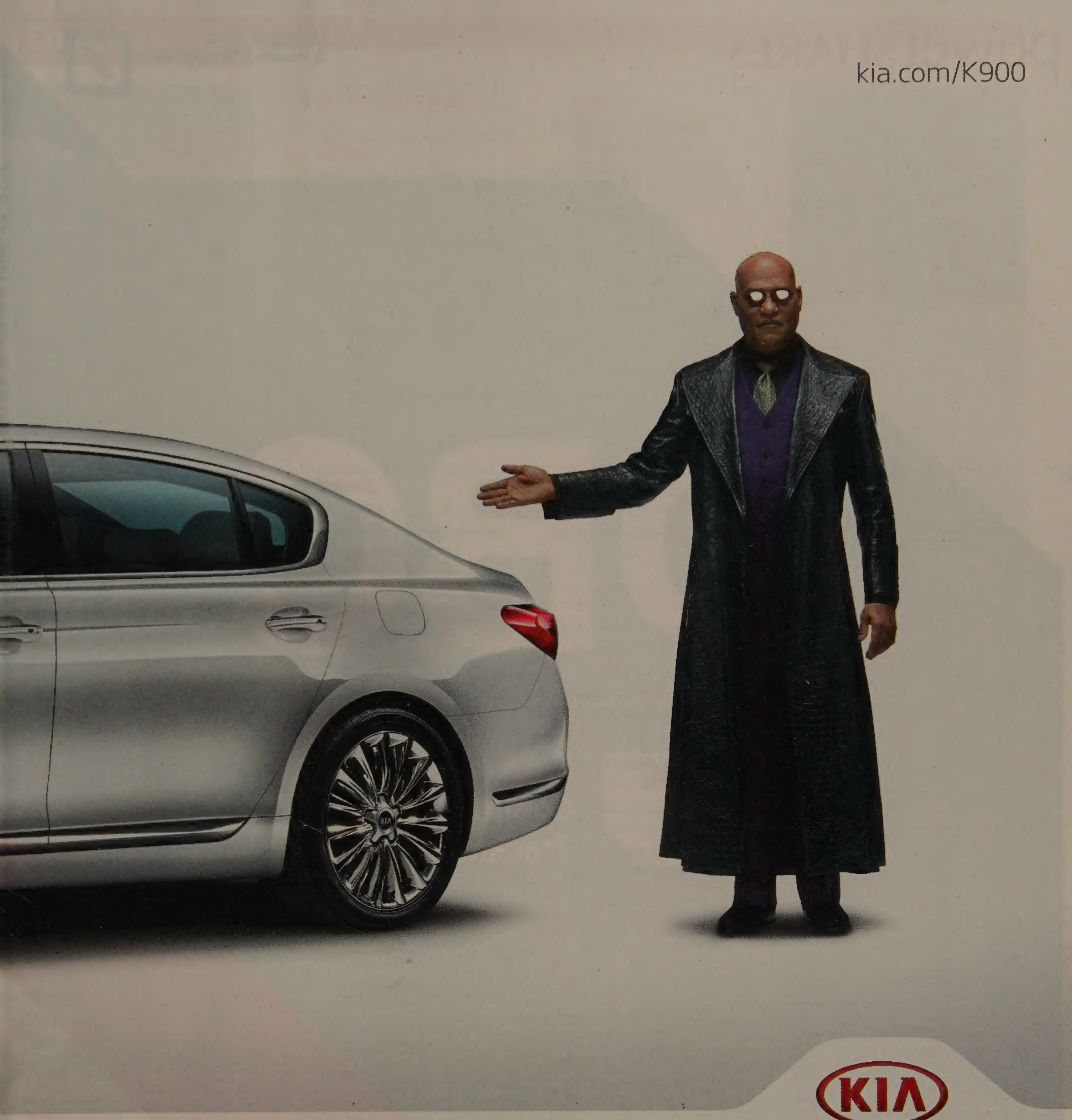
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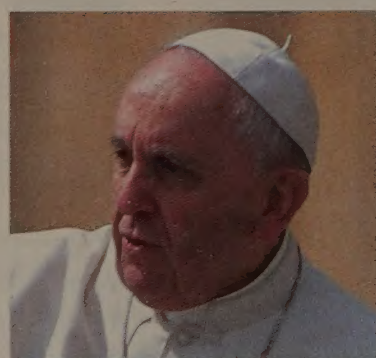

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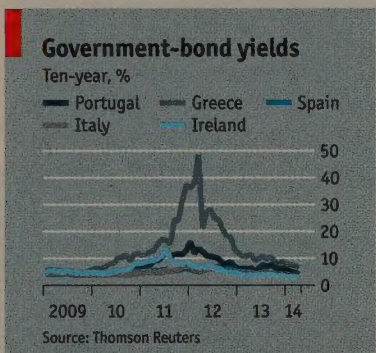

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Politics

The crisis in **Ukraine** deepened when pro-Russian supporters, allegedly led and organised by Russian forces, seized police and security buildings in about ten towns and cities across the east of the country. Oleksandr Turchinov, the acting president, ordered an "anti-terrorist operation" to retake the buildings. Thousands of Russian troops are mustered along the Ukrainian border, adding to fears that a crackdown on pro-Russians could trigger a land invasion.

Barack Obama called **Vladimir Putin** and urged him to use his influence to make the separatists in Ukraine stand down. Mr Putin denied any involvement and advised Ukrainian troops to refrain from violence. Speaking to Angela Merkel, Germany's chancellor, the Russian president warned that Ukraine was "on the brink of civil war".

Silvio Berlusconi, a former Italian prime minister, was sentenced by a court in Milan to community service, following his conviction last year for tax fraud. Mr Berlusconi, 77, will help out in a home for the elderly. He is subject to a curfew and is banned from meeting people with criminal convictions. He is still the leader of Forza Italia!, a conservative opposition party.

Britain's chancellor of the exchequer, George Osborne, requested new powers to clamp down on companies and individuals who evade or avoid tax. He is consulting Parliament about lowering the bar for prosecution, so that in future the taxman would not have to prove intent to evade tax by placing money offshore, merely that it was undeclared income.

Turkey put more pressure on Twitter by demanding it pay taxes on any profit it makes in the country. In March the government banned the microblogging site, a popular forum for protesters, though this was overturned by the courts. It wants Twitter to close accounts it deems a threat to security and to set up an office in Turkey.

Campaigning Campos

Eduardo Campos, until recently the governor of Pernambuco state in **Brazil**, confirmed that he will run as the candidate of the Brazilian Socialist Party in this year's presidential election, with Marina Silva, a former senator, as his running-mate. They hope to topple President Dilma Rousseff, who is running for a second term.

A forest fire in **Chile** killed at least 15 people in the city of Valparaiso, destroying 2,900 homes and leaving 12,500 homeless.

Find someone else

Libya's interim prime minister, Abdullah al-Thinni, who was appointed only last month, said his family had been shot at in a "cowardly attack" and he would step down as soon as a replacement could be found. The country's continuing insecurity was underlined by the kidnapping of **Jordan's** ambassador by an Islamist group demanding the release of one of its own in Jordan.

Iraq announced the "complete closure" of **Abu Ghraib**. The prison was used by the Americans during the Iraq war as an interrogation centre and hit the headlines ten years ago when a series of human-rights abuses by American troops came to light. Before that, hundreds of Saddam Hussein's opponents were killed behind its walls. The authorities are moving its 2,400 inmates to other prisons, because of security worries.

Explicit pictures depicting evidence of torture, including gouged eyes and strangulation, allegedly carried out by **Syrian** government forces, were shown to the UN Security Council. Syria said the photographs lacked "objectiveness". France wants the International Criminal Court in The Hague to investigate.

At least 70 people were killed by a bomb in a bus station on the outskirts of **Nigeria's** capital, Abuja. An extreme Islamist group, Boko Haram, was suspected.

It's a tough job

Barack Obama nominated Sylvia Mathews Burwell, his budget director, to be his new **health secretary**, after the resignation of Kathleen Sebelius. One of the few remaining members of Mr Obama's cabinet to be appointed at the start of his administration, Mrs Sebelius was thought to be safe in the job having survived Obamacare's botched roll-out last October; she told Congress at the time to "Hold me accountable for the debacle."

A gunman attacked a Jewish community centre and retirement home in Overland Park, **Kansas**, killing three people, none of whom was Jewish. Police arrested a 73-year-old white supremacist who shouted "Heil Hitler" as he was taken away.

A study by Democrats in Congress urged the Obama administration to speed up regulation of the growing **e-cigarette** industry. The authors of the report want e-cigarettes to be regulated in the same way as tobacco. Though they are generally deemed much safer, one congressman described e-cigarettes as "a candy-flavoured addiction".

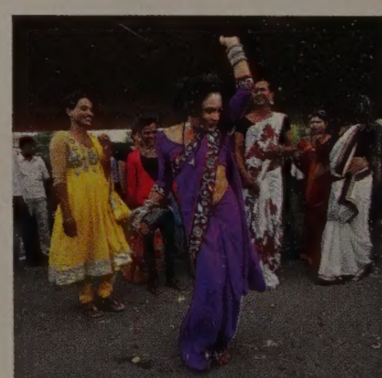
Just do it

Thousands of workers downed tools at a Chinese shoe factory, in what may be one of the biggest strikes in **China** in recent decades. The factory, in the southern city of Dongguan, supplies Nike, Adidas and other Western brands. Workers are demanding better social insurance and other benefits.

A ferry carrying mainly **South Korean** schoolchildren to an island resort capsized and sank. Early reports indicated that hundreds were missing.

Japan's minister for internal affairs visited the controversial Yasukuni shrine in Tokyo, prompting complaints from China and South Korea. The shrine, where war criminals are honoured along with ordinary soldiers, is a constant source of annoyance among Japan's neighbours, who see it as a symbol of Japanese militarism.

Early results from the presidential vote in **Afghanistan** suggested that Abdullah Abdullah, a former foreign minister, was in the lead, ahead of Ashraf Ghani, a former minister of finance. If no candidate gets a majority a run-off will take place in May.



The Supreme Court in **India** recognised transgender people as a third gender. The court ruled that choosing one's gender was "the right of every human being", and ordered the government to provide equal opportunities for the group, thought to number up to 2m in India.

Business

Carlos Tavares, the new boss of PSA **Peugeot Citroën**, outlined his turnaround plan for the French carmaker. It includes cutting the number of models the company produces from 45 to 26. Peugeot has lost more than €7 billion ($9.7 billion) since 2012 and has overhauled its ownership structure, selling stakes worth 14% each to the French government and Dongfeng, a Chinese carmaker. However, investors were not impressed with the eight-year timeline for the latest restructuring plan; Peugeot's share price fell by 7%.

The recent broad sell-off in **technology** stocks showed no sign of deterring companies from making acquisitions. Zebra, a company used by Amazon to help control its inventory flow, bought a unit of Motorola Solutions that specialises in high-tech logistics in a deal valued at $3.5 billion. And Twitter bought Gnip, a leading provider of social data.

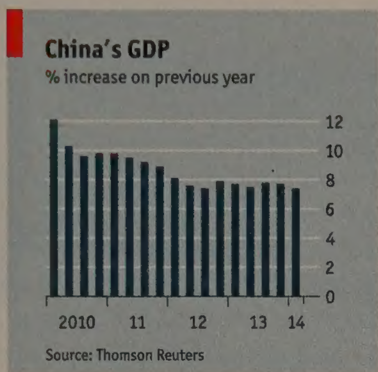
Wi-Fi in the sky

Meanwhile, **Google** agreed to buy **Titan Aerospace**, a start-up in New Mexico that makes solar-powered drones. Like Facebook, which snapped up a British dronemaker earlier this year and was itself considering a swoop for Titan, Google is hoping to use drones and other airborne technology to bring internet connections to remote parts of the planet.

Carl Icahn, an activist investor who made headlines last year with an ultimately unsuccessful attempt to stop Dell's buy-out, dropped his campaign to get **eBay** to spin off PayPal. Mr Icahn's effort had been hostile at times, with personal criticism of eBay's chief executive, John Donahoe. But the two sides reached a friendly settlement in the end.

America's big banks began posting their earnings for the first quarter, starting with **JPMorgan Chase**. It did less well than expected, reporting a net profit of $5.3 billion, its worst start to a year by that measure since 2010, as trading revenues fell sharply.

TIAA-CREF, a financial-services company that specialises in pension plans for academics and the non-profit sector, agreed to buy **Nuveen Investments** for almost $6.3 billion. The new company will have around $800 billion in assets under management, propelling it into the top ranks of American money managers.



Official figures showed that **China's economy** is growing at its slowest pace for almost two years. GDP rose by 7.4% in the first quarter compared with the same period last year (or by 1.4% compared with the last three months of 2013). The government's target is for GDP to increase by 7.5% this year, which some economists think it will struggle to achieve.

The World Trade Organisation slightly raised its forecast for growth in the **exports** of goods to 4.7% for this year and 5.3% for next (5.3% has been the average growth rate in trade over the past 20 years). It said it was encouraged by the signs of recovery in America and Europe.

Britain's **unemployment rate** fell to 6.9%. Last August, when the Bank of England issued its first forward guidance, unemployment stood at 7.7%. The central bank's best estimate then was that it wouldn't drop below 7% until 2016, at which point the bank would consider increasing interest rates. It has since revised its guidance, which is now based on a wider range of indicators.

The spending habit returns

Retail sales in America grew by 1.1% in March compared with February, the fastest pace in 18 months, albeit from a low base in February as severe winter weather chilled Americans' desire to spend. Car sales drove the increase in March, rising by 3.1% in the month.

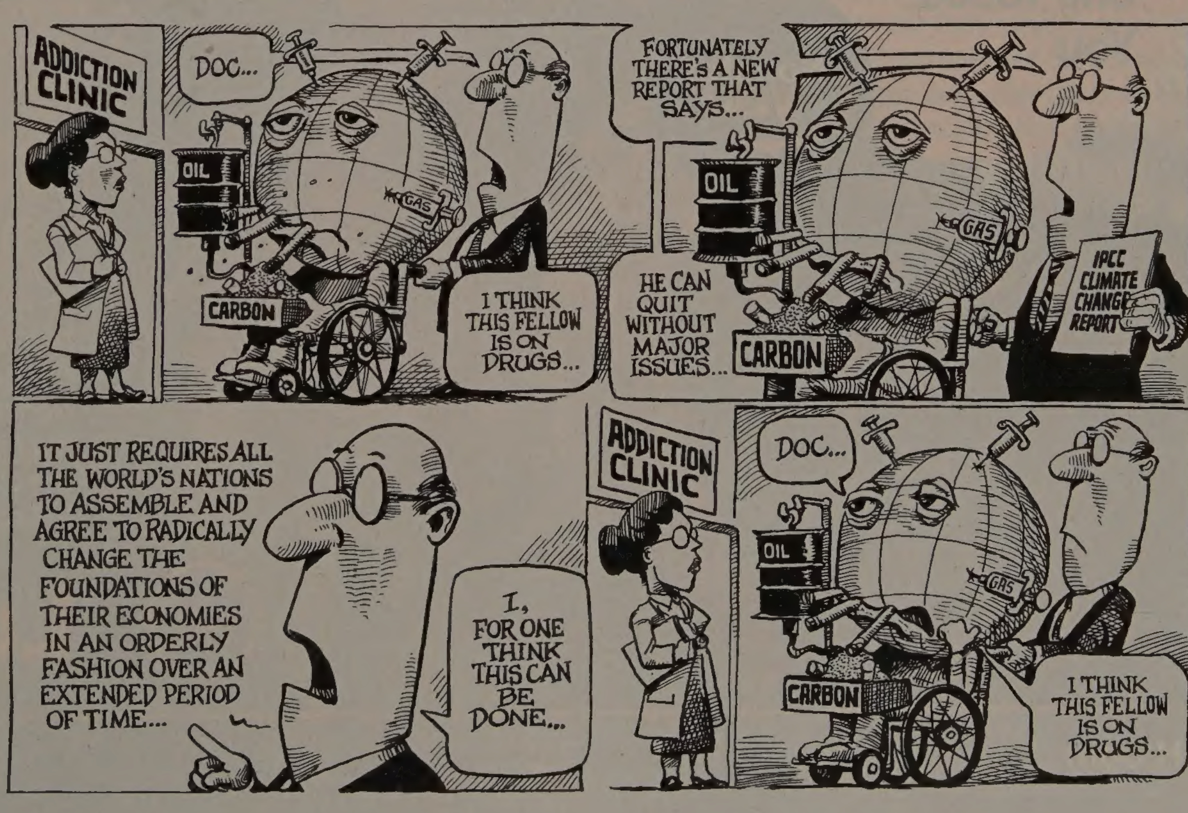
Glencore Xstrata confirmed that it was selling its Las Bambas **copper mine** in Peru to a Chinese consortium, though the price, $5.9 billion, was at the high end of expectations. Last year China's antitrust regulator instructed Glencore to sell the mine as a condition for approving its merger with Xstrata.

A city court in Brussels ordered unlicensed taxi-drivers to stop picking up passengers through the popular **Uber** app, which has been developed by a start-up in San Francisco and backed by Google. The case was supported by city officials, but the decision was criticised by a European Union commissioner for "protecting a taxi cartel". Uber has come up against a number of regulatory roadblocks in various cities.

Affordable housing (at last)

A firm in China claimed to have built the world's first house made from **3D-printed** materials. The structural components of ten 200-square-metre houses were printed in a Shanghai district for around $4,800 each in less than a day from recycled building materials. Some wonder if this could one day alleviate the housing crisis of sky-high prices and overcrowded properties that besets many cities around the world, such as London.

Other economic data and news can be found on pages 84-85

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Insatiable

The cost of stopping the Russian bear now is high—but it will only get higher if the West does nothing

FIRST Vladimir Putin mauled Georgia, but the world forgave him—because Russia was too important to be cut adrift. Then he gobbled up Crimea, but the world accepted it—because Crimea should have been Russian all along. Now he has infiltrated eastern Ukraine, but the world is hesitating—because infiltration is not quite invasion. But if the West does not face up to Mr Putin now, it may find him at its door.

The storming of police stations in eastern Ukraine over the weekend by pro-Russian protesters (see page 19) is a clever move, for it has put the interim government in Kiev in an impossible position. Mr Putin has warned that Ukraine is on the brink of civil war. If the country's government fails to take control, it will open itself to charges that it cannot keep order within its own borders. But its soldiers are poorly trained, so in using force (operations were under way as *The Economist* went to press) it risks escalation and bloodshed. Either way, it loses.

The West has seen Russia brush off its threats and warnings. It looks feeble and divided. Yet, after the destabilisation of eastern Ukraine, even doves should grasp that the best chance of stability lies in standing up to Mr Putin, because firmness today is the way to avoid confrontation later.

Red lines and green men

Russia insists that it has played no part in the seizure of towns such as Sloviansk and Gorlivka. This is implausible. The attacks were co-ordinated, in strategically useful places that had seen few protests. Just as in Crimea six weeks ago, troops in unmarked uniforms and with Russian weapons carried out the initial assaults. Russian agents have turned up in custody and in reporters' notebooks, organising the protests and, some say, paying for them. Russia has been meddling in eastern Ukraine for weeks, occasionally with results from the pages of Gogol. On April 6th "local people" stormed what they thought was the regional administrative headquarters in Kharkiv only to find that they had taken control of the opera house.

Russian diplomats counter that they cannot be behind what is going on, because instability in eastern Ukraine is not in Russia's interests. True, normal countries benefit from peace and prosperity next door. However, mindful of its own claim to power and the outlook for Russia's stagnant economy, the Kremlin has much to fear from the pro-European demonstrations that toppled Ukraine's president, Viktor Yanukovych. It appears determined to see the new Ukraine fail.

There are several reasons why Russia might want to destabilise Ukraine. One motive could be to stop the presidential elections, due on May 25th. That would deprive Ukraine of the elected leadership it needs to restore order. A second could be to justify overt Russian intervention. Mr Putin is capable of exploiting either anarchy or bloodshed as a pretext to move his troops, camped in large numbers across the border, into Ukraine as "peacekeepers". But occupation would come at a heavy cost (see page 20), so the Kremlin might prefer a third result: civil conflict that destroys the authority of Kiev, followed by a parallel government for eastern Ukraine. There is nothing wrong with federalism in principle, but this would be a formula for Russian domination.

Some would leap at such a deal as the least bad on offer. Ukrainian politicians and oligarchs might be happy, because they could go on stealing. The West could take comfort that the Russians had not actually invaded. But it would be a terrible outcome for the Ukrainian people, especially those who risked their lives in the Maidan for a chance of something better. For the West to accept such a result with relief would constitute a grave misreading of Russia's mischief-making.

Mr Putin has used the Ukrainian crisis to establish some dangerous precedents. He has claimed a duty to intervene to protect Russian-speakers wherever they are. He has staged a referendum and annexation, in defiance of Ukrainian law. And he has abrogated a commitment to respect Ukraine's borders, which Russia signed in 1994 when Ukraine gave up nuclear weapons. Throughout, Mr Putin has shown that truth and the law are whatever happens to suit him at the time.

Mr Putin has taken to arguing that Russian values are fundamentally at odds with Western liberal ones. He now has the tools to intervene on his borders and beyond so as to upend the post-Soviet order. That might be in Transdniestria, a slice of Moldova that has hosted Russian troops since the early 1990s. Or in Kazakhstan, which has a large Russian population in the north. Or even in the Baltic states, two of which have large Russian-speaking minorities and all of which depend on Russian gas. Because the Baltics are members of NATO and the EU, a Russian move against them would be a challenge to the entire West. A miscalculation by either side could be disastrous.

Hope for the best, prepare for the worst

That is why the West needs to show Mr Putin that further action will be costly. So far, its rhetoric has marched far ahead of its willingness to act—only adding to the aura of weakness. Not enough is at stake in Ukraine to risk war with a nuclear-armed Russia. And European voters will not put up with gas shortages, so an embargo is not plausible. But the West has other cards to play. One is military. NATO should announce that it will hold exercises in central and eastern Europe, strengthen air and cyber defences there and immediately send some troops, missiles and aircraft to the Baltics and Poland. NATO members should pledge to increase military spending.

Another card is sanctions, so far imposed on only a few people close to Mr Putin. It is time for a broad visa ban on powerful Russians and their families. France should cancel the sale of warships to Russia. A more devastating punishment would be to cut Russia off from dollars, euros and sterling (see page 22). Such financial sanctions, like those that led Iran to negotiate over its nuclear programme, would deprive Russia of revenues from oil and gas exports, priced in dollars, and force it to draw on reserves to pay for most of its imports. They would be costly to the West, especially the City of London, but worth it. Impose them now, and give Mr Putin reason to pause. Do any less and the price next time will be even higher. ■

Urbanisation

Where China's future will happen

For the world's sake, and its own, China needs to change the way it builds and runs its cities

"A GREAT city", said Benjamin Disraeli, "...is the type of some great idea. Rome represents conquest; faith hovers over the towers of Jerusalem; and Athens embodies the pre-eminent quality of the antique world, art." In building its cities, China's officials have had only one great idea in mind: growth. That has brought huge benefits, and problems too.

In the three decades since economic liberalisation began, China's urban population has risen by more than 500m, the equivalent of America plus three Britains. China's cities, already home to more than half the country's people, are growing by roughly the population of Pennsylvania every year. By 2030 they will contain around a billion people—about 70% of China's population, and perhaps an eighth of humanity. China's fate, and that of the Communist Party, will be determined by the stability of its cities (see special report after page 44).

Much of what has happened is breathtakingly exciting. Shanghai, a drab communist-era sprawl with a few 19th-century relics until the 1990s, has been used as the cosmopolitan backdrop for a James Bond film. Chengdu, whose population has grown by 50% since 2000, boasts the world's largest building: the New Century Global Centre, which includes a shopping mall and a 300-metre-long indoor artificial beach. Zhengzhou now claims the largest bullet-train station in the world: the $2.4 billion edifice and surrounding area covers the equivalent of 340 football pitches. China's urbanites whizz from city to city at 300kph (186mph) on a bullet-train network that did not exist six years ago yet now is longer than all of Europe's. By 2020 it will expand by another two-thirds, or 7,000km (4,300 miles), and every city with a population of 500,000 or more will be connected to it.

Cracks in the façade

Yet the model of pell-mell urbanisation is breaking down. Even the government recognises this. In March the prime minister, Li Keqiang, described the noxious smog that shrouds China's cities as a "red-light warning against the model of inefficient and blind development". The World Bank and a Chinese government think-tank have just produced a 544-page report on urban China. It praises China for avoiding ills common in the developing world such as urban poverty, squalor and unemployment. But it says that "strains are starting to show" and that the model is "running out of steam".

Two flaws in the Chinese model of urbanisation are causing these strains. The first is economic. Farmers in China have no property rights, so officials are able to grab agricultural land on the peripheries of urban areas and make money for themselves and their cities by selling it to developers. This is not only unjust; it has also led to a relentless pouring of concrete that has given rise to "ghost cities"—half-empty forests of high-rise office and residential buildings that have sprung up around many cities. The vast debts local governments have incurred as a result of this over-hasty development are the focus of foreign worries about the country's economic stability.

This urban sprawl is also exacerbating China's environmental problems. People need cars to get around the country's American-style cities. Beijing now has more cars than Houston, as well as some of the dirtiest air on the planet. And it is not just affecting the Chinese. The nation passed America in 2006 as the biggest emitter of carbon dioxide from energy, and is now pumping out nearly twice America's level.

The second flaw in the urbanisation model is a social one. China's cities are now largely made up of two classes, each with a population roughly the size of America's: a property-owning middle class which enjoys new social freedoms (see page 40), takes holidays in Europe (see page 53) and spends like its Western counterparts; and a migrant underclass which toils in factories and menial jobs but is denied public services because its *hukou* (household registration) is still in the countryside. Both groups have fared well in the boom years; but discontent is growing (see page 39), and they distrust each other, as well as the party.

On March 16th the government unveiled a long-awaited plan for managing urbanisation. Under the new approach, some 100m migrants will be given urban *hukou*, and thus full access to urban services by the end of the decade. But that will still leave 200m unregistered, and the issue of who should pay the bill unresolved. Reformers want a new tax on property—the soaring value of which is enriching the middle classes—to provide local governments with a steady revenue stream. The central government fears that this could spur demands by homeowners for more say in how cities are run.

House of cards

The challenge for Xi Jinping, China's president, and his team is as immense as the cities themselves. But there are two obvious steps for them to take. The first is to give farmers property rights and thus the ability to sell their land. If the market were allowed to operate, prices would be high. Overall, China has less habitable space than America but four times as many people. Much of the country is mountain or desert, unusable for development. High prices, reflecting this shortage, would force urban planners to regard land as a scarce resource and to use it efficiently. That would discourage them from allowing American-style sprawl and encourage them to build dense, energy-efficient European-style cities in which people walk, cycle or take public transport to work.

The second necessary step is to open up decision-making. One reason why so many Chinese cities are grim is that residents have so little say in how they are planned, built and run. If people had the right to elect their mayors and legislators, they would—assuming they behaved like city-dwellers elsewhere in the world—insist on planning controls to constrain development and improve the environment.

The document unveiled in March called the government's urbanisation plan "people-centred". If the next stage of China's phenomenal urban transformation is to bring prosperity and stability rather than conflict and chaos, the party needs to live up to the phrase. ■

Arab democracy

The lesson of Algeria

Even if the Arab spring has sorely disappointed, dictators, even benevolent ones, are not the answer

MANY people argue that it would have been better if the Arab spring had never happened. Think of the mayhem that would have been avoided in Egypt and Syria, not to mention Libya, Yemen and Bahrain, where the angry and the aggrieved have created chaos in the name of democracy. How foolish of Western governments, especially in America and Britain, to betray allies like Hosni Mubarak and to pander to the Muslim Brotherhood and assorted narrow-minded Islamists. Thank heavens that Egypt is back in safe hands under a field-marshal and that most of the Gulf is ruled by moderate Westernised princes. After all, people mutter privately, the Arab culture simply is not suited to modern democracy.

Some of this is justified. Nobody would claim that bloodstained Syria is anything but a tragedy (see page 42). In Egypt liberals were naive to expect democracy to blossom overnight. But too much of today's criticism of the Arab spring is itself naive, because it forgets that the dictatorial alternative is corrupt, repressive and ultimately doomed.

That is the lesson from Algeria's bogus election (see page 41). Algeria's regime is the sort that the realists like to excuse. The place used to be chaotic. Some 200,000 people were killed in a civil war which the generals started when they refused to accept an Islamist victory in the 1991 election. But for the past 15 years President Abdelaziz Bouteflika has kept the peace. The Arab spring has largely passed Algeria by.

But at what cost? The election will be won by Mr Bouteflika, even though he is an ailing 77-year-old who is barely seen in public. For three months last year he was hidden away in a Paris hospital. He has not bothered to campaign, leaving the job to his staff. Oozing with gas, Algeria should be rich, but its economy is as moribund as its politics and rife with corruption. Algeria teems with disaffected young, many of whom dream of crossing the Mediterranean in search of work and freedom.

At least Mr Bouteflika has had the nerve to print his name on a ballot paper. In Saudi Arabia another gerontocrat, King Abdullah, has just appointed his half-brother Muqrin, a 69-year-old, as second in line to the throne, behind the feeble 78-year-old crown prince, Salman. Too much of Arab politics is still stuck. Of the Arab League's 22 countries, only one, Tunisia, can nowadays be deemed fully democratic—a rare beneficiary of the Arab spring.

What's the Arabic for compromise?

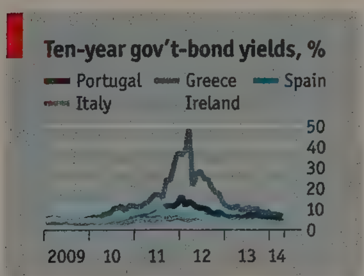
Hence the question for those who rubbish the idea of Arab democracy. Does anybody think that rule by dictators, however benevolent, will last? Algeria's seeming stability will prove an illusion in the long run. The generals and spooks who run the show, in particular a shadowy 75-year-old security chief, General Muhammad "Toufiq" Mediène, are jostling for the succession. Frustration at the prospect of five more stagnant years of Mr Bouteflika could yet ignite a smouldering popular protest. In Egypt the fall of Mr Mubarak showed that corrupt regimes, however militarily muscular, are not impregnable. Its latest strongman, Abdel Fattah al-Sisi, the field-marshal who led last year's coup against an elected Muslim Brother president, will win the coming election; but unless he can mend the economy, his popularity will wane, just as Mr Mubarak's did.

The argument that some civilisations are unsuited to democracy has been used from Taiwan to South Africa: it seldom holds water for long. The Arab spring has so far been mainly a mess. But to condemn Arabs to political servitude is no answer. It only delays the explosion. ■

Europe's bond bubble

Don't go potty on the periphery

Southern Europe's economies are in worse shape than tumbling bond yields suggest



INVESTORS have developed a remarkable enthusiasm for the European debt they once shunned. On April 10th, only two years after Greece imposed the biggest debt-restructuring in history on its private creditors, it raised €3 billion ($4.1 billion) in five-year bonds at a yield of less than 5%; the issue was seven times oversubscribed. On April 15th yields on ten-year Italian-government bonds fell to 3.11%, the lowest on record. From Portugal to Ireland, investors are piling into the bonds of the euro zone's peripheral economies, pushing nominal yields down to levels not seen since the single currency began.

It is tempting to say that this is proof that the euro crisis is over: that years of tough reform are paying off, and that lower bond yields should soon lead to greater investment and faster growth. Tempting, but largely wrong. The outlook is far less rosy than the plunge in bond yields suggests. First, there is the cruel arithmetic of deflation. With prices falling in several of the peripheral economies, the real burden of their debts is rising. Second, much of the fall in bond yields reflects investors' hopes that the European Central Bank (ECB) will start printing money, hopes that are likely to be dashed.

A year ago Spain's ten-year bonds yielded 4.7% and its inflation rate was 1.5%. Today ten-year bonds yield 3.1%, but inflation has fallen below zero. On this crude measure, the real yield on these government bonds—that is, after adjusting for ▸▸

inflation—has barely budged. On a fancier measure, using ten-year inflation expectations, real yields on the periphery's sovereign bonds have fallen more, but are still much higher than anywhere else in the rich world. That is why investors are piling in. But it is also why the debt burden is a problem.

Hoping against history

The burden of a country's debts depends on how much it owes and the gap between its growth rate and the real interest rate it must pay. On each count, Europe's peripheral governments fare poorly. Most have debts above 100% of GDP. Structural reforms, from freeing labour markets to deregulating cosseted industries, have not been radical enough to transform their growth prospects (see page 68). So the odds are that output will stay weak, deflation will persist and debt will rise further.

The way to avoid this is strong action from the ECB to banish deflation. That is exactly what many investors today are betting on. Thanks to a string of hints from ECB officials that they are considering "unconventional measures" to stop inflation falling further, there is a growing expectation that the ECB is on the brink of cranking up the printing presses.

The reality will probably be much less dramatic. Europe's central bankers are willing to talk about bold measures, in the hope that talk alone persuades the markets. But there is no evidence of a commitment to act decisively. Germany's influential Bundesbank is not convinced that low inflation is yet a problem. Even those central bankers who worry about falling prices see endless practical problems in designing measures to combat them. If the ECB acts it will probably be in small, careful steps, starting perhaps with the introduction of a negative rate on bank deposits.

Unfortunately, history suggests that incremental efforts to fight deflation do not work. Take Japan. For two decades the economy was stuck in a trap of economic stagnation, falling prices and rising debt. In the early 2000s the Bank of Japan's timid efforts at battling deflation with money-printing failed. Only since 2013 has the ambitious stimulus of Abenomics begun to succeed. The ECB is much more like the Bank of Japan in 2000 than that of 2014. Until that changes, investors in Europe's periphery should expect more deflation and rising debt. Nominal yields may shrink further, but the problems are not getting any smaller. ■

The pope as a turnaround CEO

The Francis effect

About to take over a crisis-ridden company with a demoralised workforce? Turn to a Roman case study

BUSINESS schools regularly teach their students about great "turnaround CEOs" who breathe new life into dying organisations: figures such as IBM's Lou Gerstner, Fiat's Sergio Marchionne and Apple's Steve Jobs. Now Harvard Business School needs to add another case study: Jorge Bergoglio, the man who has rebranded RC Global in barely a year.

When Pope Francis celebrated his first Easter as CEO, just after being appointed, the world's oldest multinational was in crisis. Pentecostal competitors were stealing market share in the emerging world, including in Latin America, where Francis ran the Argentine office. In its traditional markets, scandals were scaring off customers and demoralising the salesforce. Recruitment was difficult, despite the offer of lifetime employment in a tough economy. The firm's finances were also a mess. Leaked documents revealed the Vatican bank as a vortex of corruption and incompetence. The board was divided and weak. Francis's predecessor, Benedict XVI, was the first pope to resign for 600 years, amid dark rumours that the founder and chairman, a rarely seen elderly bearded figure whose portrait adorns the Sistine boardroom, had intervened.

Operating prophet

In just a year, the business has recovered a lot of its self-confidence. The CEO is popular: 85% of American Catholics—a tough audience—approve of him. Footfall in RC Global's retail outlets is rising again. The salesforce now talks about a "Francis effect". How has a septuagenarian Argentine succeeded in galvanising one of the world's stodgiest outfits? Essentially by grasping three management principles.

The first is a classic lesson in core competences. Francis has refocused his organisation on one mission: helping the poor. One of his first decisions was to forsake the papal apartments in favour of a boarding house which he shares with 50 other priests and sundry visitors. He took the name of a saint who is famous for looking after the poor and animals. He washed and kissed the feet of 12 inmates of a juvenile-detention centre. He got rid of the fur-trimmed velvet capes that popes have worn since the Renaissance, swapped Benedict's red shoes for plain black ones and ignored his fully loaded Mercedes in favour of a battered Ford.

This new focus has allowed the company to spend fewer resources on ancillary businesses, such as engaging in doctrinal disputes or staging elaborate ceremonies. The "poor-first strategy" is also aimed squarely at emerging markets, where the potential for growth is greatest but competition fiercest.

Along with the new strategic focus, the pope is employing two management tools to good effect. One is a brand repositioning. He clearly continues to support traditional teaching on abortion and gay marriage, but in a less censorious way than his predecessors ("Who am I to judge?" he asked of homosexuals). The other is a restructuring. He has appointed a group of eight cardinals ("the C8") to review the church's organisation and brought in McKinsey and KPMG ("God's consultants") to look at the church's administrative machinery and overhaul the Vatican bank.

Will it work? Established critics, notably the corporate raider Lou Siffer, maintain it is all incense-smoke and mirrors. Others insist that more sweeping change, including a bigger role for women, is needed. The chairman's attitude is unknown. Some analysts interpret the absence of plagues of boils and frogs as approbation; others point out that He moves in mysterious ways, his wonders to perform. ■

In support of Modi

SIR – As a passionate reader of *The Economist* I have generally subscribed to your views as an accurate reflection of the facts. However, your leader on Narendra Modi, the favourite to become India's prime minister after the election, drew upon unseemly logic ("Can anyone stop Narendra Modi?", April 5th). To give just one example, you argued that Mr Modi helped organise a march on the holy site of Ayodhya in 1990 and inferred that this led, two years later, to the deaths of 2,000 people. Yet Mr Modi was barely a speck on the political horizon in the early 1990s and his role was, if anything, marginal. Moreover, the suggestion that the march led to riots two years later is irrational.

The facts are simple. Mr Modi's administration in the state of Gujarat will be remembered more for growth and development than for riots. It accounts for 5% of India's population, but for 26% of its exports and 18% of its investment. And unlike other states such as Uttar Pradesh and Andhra Pradesh that are ruled by supposedly secular politicians, Gujarat under Mr Modi has witnessed no Hindu-Muslim discord other than the unfortunate riots of 2002. On that count alone he became India's most scrutinised politician and remains so, despite the fact that an independent judicial commission eventually exonerated him. His detractors privately admit that they simply have nothing else to pin on him.

Your recommendation that Rahul Gandhi would be the more acceptable prime minister is bizarre. What India so desperately needs is robust leadership, investment and growth. The Congress party's populist agenda of entitlements and welfare has bankrupted the treasury and destroyed investor confidence.

Mr Modi is the best choice. Frankly, if the BJP does win this election it will be because the electorate voted for him, rather than for the party.

ADIT JAIN
Delhi

Offshore finance and the BVI

SIR – The governor of the British Virgin Islands should veto a piece of legislation on cybercrimes recently approved by the assembly ("Going overboard", March 29th). The bill would impose stiff penalties—up to 20 years in prison and $1m in fines—on anyone, anywhere, who discloses or publishes leaked information about a BVI offshore company.

Although the rights of individuals to financial privacy should be respected, it is also necessary to safeguard the rights of those damaged by the criminal activities that such privacy can invite. The negative effects of offshore secrecy fall particularly heavily on developing countries. Offshore secrecy provides corrupt individuals and companies an easy way to stash illicit assets. Journalists and whistle-blowers should not be penalised for bringing such crimes and injustices to light.

The BVI legislation would do exactly that, by institutionalising a system in which protecting secrecy at all costs takes precedence over protecting principles of social justice and freedom of the press.

MICHAEL ELLIOTT
Chief executive
The ONE Campaign
Washington, DC

SIR - For a newspaper that extols the virtues of the democratic process, your suggestion that the British-appointed governor should veto a bill that is still only one-third of the way through the parliamentary process betrays a troubling lack of confidence in post-colonial legislatures.

COLIN RIEGELS
Partner
Harneys
Hong Kong

Our changing climate

SIR – "In the balance" (April 5th) presented a false dichotomy between being dispassionate and being alarmist about the impacts of climate change. There is nothing alarmist about the risk of extreme weather events leading to breakdowns in critical services and food systems. Such breakdowns have already accompanied, for example, the 2011 floods in Thailand and the 2010 drought in Russia. And there is nothing dispassionate about economic damage estimates that, in the words of the Intergovernmental Panel on Climate Change, are "incomplete" and face "recognised limitations".

Rather than suggesting that the risks assessed by the IPCC are scare stories and that the overall economic costs of climate change would be manageable, *The Economist* could explore the assumptions used by economic models and their developers to arrive at such estimates.

One assumption is that the occurrence of impacts will automatically lead to adaptation to those impacts. The IPCC chapter, "Adaptation opportunities, constraints and limits", shows that such optimism is not justified. Not every farmer facing crop losses has the ability to choose a different crop variety, and not all urban dwellers can move to an area where they are not exposed to floods or landslides.

The world is facing impacts of climate change precisely because it is difficult to take effective action to reduce greenhouse-gas emissions. To assume that adaptation to these impacts will take place with little extra effort, at low or no cost and with immediate pay-off, is quite silly, and not a reflection of reality.

RICHARD KLEIN
IPCC author
Stockholm Environment Institute

The office

SIR – In 1951 I started my business career at a prestigious company in Japan with great hopes and aspirations. What I found were rigid but unwritten rules of work (or pretending to work), such as not leaving the office before your boss does, joining the nominication drinking sessions, and so on. In this environment no innovative ideas were welcome. The all-important relationship was of the subordinate pledging total obedience to the boss, who in turn protects him.

In this working culture there was little room for talented women to survive, much less succeed. Even for a man like me, I saw no future. Your article, "Holding back half the nation" (March 29th), showed that working customs have not changed in Japan.

Fortunately, after enduring years of suffocation, I was recruited to join the Japanese branch of an American firm, and eventually retired happily in America.

MUNEYUKI NAKANO
Seattle

SIR – I found it notable that you did not mention the young Japanese woman who married the emperor's son, following her American education and employment as a lawyer on Wall Street. There was hope at the time that she would influence the position of women in Japan, even in a very modest way. Her apparent disappearance from public life following her marriage is a disappointment to many.

MARGOT CHAMPAGNE
Phoenix

SWAT teams at county fairs

SIR – The article about the militarisation of America's police ("Cops or soldiers", March 22nd) reminded me of an episode of "The Wire", where Major Colvin says, "You call something a war, and pretty soon everybody gonna be running around acting like warriors." I found your article particularly interesting as a resident of sleepy Santa Barbara. Our local police have procured a BearCat armoured personnel carrier, just like the town of Keene in New Hampshire. Unfortunately, we have no pumpkin festival to protect.

JIM ANDREWS
Santa Barbara, California ■

Letters are welcome and should be addressed to the Editor at
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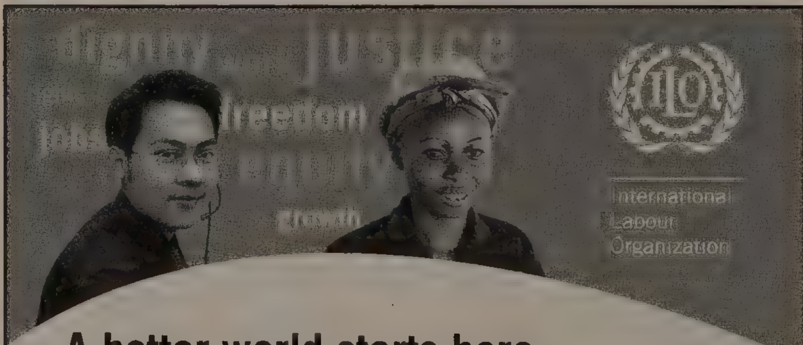

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Boys from the blackstuff

MOSCOW, RUSSIA, AND SLOVIANSK, UKRAINE

The government in Kiev has no obvious counters to Russian-inspired occupations in the industrial east

AT A strangely stilted press conference six weeks ago, just after the annexation of Crimea, Vladimir Putin, Russia's president, was asked if Russia would fight a war with Ukraine. "I want you to understand me clearly," he answered. "If we make that decision, it will only be to protect Ukrainian citizens. And let us see if [Ukrainian] troops try to shoot their own people, with us behind them—not in the front, but behind."

Intended to reassure Russians, his words carried a sinister double meaning: Russia was prepared to use Ukrainian civilians as human shields. Now it is doing so. In the past week it has engineered a situation in which the Ukrainian government must either appear entirely ineffectual or risk attacking some of its own citizens and, in so doing, provide a pretext for further Russian action—even, perhaps, invasion.

On April 6th armed men seized the administration buildings in Donetsk and Kharkiv, as well as the security-service buildings in Luhansk—the three capitals of Ukraine's eastern provinces. Barricades went up and local enthusiasts gathered on them, but without massive public support. On April 12th, in an apparently co-ordinated way, the crisis moved to a new phase. Police and security-service buildings fell to rebels in towns all across the region, many of them situated on road and rail links that would have strategic value in the event of a Russian invasion. These smaller, poorer towns where the family of the deposed president, Viktor Yanukovych, has strong influence were an easier target than the cities.

Unidentified, well-equipped soldiers led many of the occupations. They were followed by local armed separatists and ordinary civilians. Many police officers switched sides. Russian television channels, disconnected a few weeks ago because of their ceaseless propaganda, have been turned back on. Passing through a checkpoint set up by pro-Russian rebels in Sloviansk, 100km from Donetsk, a man on the barricades says cheerfully that the situation unfolding is "just like Crimea".

Alien invasion

Russia denies that the "little green men" who co-ordinated the occupation of Crimea, some of whom have now been seen in Donbas, are its soldiers. But last year Russia's defence ministry boasted about the creation of a "special operations" unit comprising personnel who could act as "illegals" in neighbouring countries, and many think this has now been seen in action. Ukrainian security forces say they have intercepted a telephone conversation between pro-Russian forces and their Russian minders in military intelligence.

The occupations have shown how little authority Ukraine's government has in the east. Yulia Tymoshenko, a former prime minister and presidential candidate, urged the government (which she effectively controls) not to use force. One reason is her lack of confidence in Ukraine's security services. A botched operation would enrage the public and give Russian forces a pretext to move deeper into Ukraine. Another reason is the presidential elections scheduled for May 25th, which Ms Tymoshenko still hopes to win, despite trailing behind Petro Poroshenko, a billionaire who supported the February revolution.

The acting president, Oleksandr Turchinov, pledged large-scale anti-terrorist operations, issued ultimatums and set deadlines—but to little effect so far. On April 15th government forces freed a small airport at Kramatorsk which had apparently been taken by militants, but which does not seem to have been defended. "It looks a bit farcical," says Fyodor Lukyanov, the editor ▸▸

of *Russia in Global Affairs*, a journal. "The militants are pretending that they are taking control of things and Ukrainian forces are pretending they are freeing them."

The farce could yet turn bloody. As *The Economist* went to press, armoured personnel carriers containing Ukrainian troops who had surrendered to pro-Russian crowds were entering Sloviansk. In a telephone call to Angela Merkel, the German chancellor, on April 15th Mr Putin described Ukraine's operation as a serious escalation. Ukraine, he said, was on the brink of a civil war. This was what he said about Crimea to justify annexing it, citing NATO's action in Kosovo—which at the time Russia deplored—as a precedent. Mr Putin would not need a genuine conflict, such as that in Kosovo, to make a move; but there are enough pro-Russian and pro-Ukrainian feelings on the ground to spark one.

Though Mr Putin may yet move militarily against Ukraine (see next story), perhaps under the guise of a peacekeeping mission, perhaps even to recognise independence for the south and east, he seems unlikely to want to annex any more of the country. The bribes that would be needed to ensure the acquiescence of a good chunk of the population would cost a great deal. In Crimea Russia has pledged to bring salaries and pensions up to Russian levels; to do the same for Donetsk would cost twice as much. Subsidising the region's coal mines, as the government in Kiev has done for years, would be another burden on the Russian economy. Much better simply to gain influence on the government in Kiev by turning the east into a constant source of trouble which keeps Ukraine chaotic, dysfunctional and unpalatable to the West. "Bringing the troops across the border would be seen as a failure of the Kremlin's game," says Mr Lukyanov.

Source: Texty.org.ua

Alexander Dugin, one of Russia's most vocal imperial nationalists and anti-American ideologues, agrees that an occupation of south-eastern Ukraine would not be in Russia's interest. He argues that the Maidan revolution in Kiev was an American plot to drag Ukraine into the European Union and NATO. Having failed to make this happen, Mr Dugin says, America is now trying to provoke violent clashes to justify putting NATO military bases in Ukraine.

As Russia's plans depend on a new federal structure for Ukraine which gives increased power to the areas over which it holds sway, it might seem odd that the most recent flare up of separatism in the east began just after Arseniy Yatseniuk, Ukraine's acting prime-minister, confirmed that the government intended to decentralise power and engage with local elites there. Rinat Akhmetov, who controls a great deal of industry in the Donetsk region and is Ukraine's richest oligarch, volunteered himself as a mediator. Those might seem to be the sort of moves towards federalisation that Russia would seek to encourage.

But they are also developments designed to build bridges between the government in Kiev and the businessmen and politicians in the south and east, and Russia wants none of that. Pro-Russian forces are stirring up anti-oligarch sentiment because Russia knows that they might back the central government rather than see separatism ascendant. What is more, for Russia to endorse the government's effort would be to recognise its legitimacy and that of the revolution which swept it to power, both of which the Kremlin rejects (it refers to Ukraine's government as a "junta"). Thus a proposal by Mr Turchinov to hold a national referendum on federalisation was almost ignored by Russia.

Rather than allowing the government in Kiev to delegate power to the regions, the Kremlin needs the eastern regions to grab power for themselves, creating parallel government structures that undermine the central government's legitimacy. That is why Mr Putin wants a representative from southern and eastern Ukraine at international talks on the crisis—a proposal Ukraine, Europe and America reject.

Russia's short-term objective is to sabotage the elections. "National elections cannot take place without Donetsk," says Maksim Shevchenko, a journalist close to the Kremlin. Its long-term aim is to stop Ukraine ever moving towards Europe. Given that the February revolution was powered by aspirations to do just that, this would provoke unrest in Kiev and in western Ukraine. That is not a problem for Mr Putin. Russia wants to turn Ukraine back into a buffer state, with a level of disorder it can turn up or down. In the end, Ukraine may end up barely a state at all. ■

The military balance

Gathering storm

Russia would find holding territory in Ukraine harder than taking it

ACCORDING to satellite pictures and military intelligence, some 50,000 Russian troops are massed along the border with Ukraine. The forces represent a substantial fraction of Russia's 270,000-strong army, and they cannot indefinitely maintain the high state of readiness they have been in since early March, not least because it is now the time of year when conscripts at the end of their term have to be sent home, and new ones trained.

Ukraine's armed forces are, by comparison, small, ill-equipped and out of position. Ukraine has just 77,000 troops. The interior ministry's paramilitary forces are of similar number, but in the south and east of the country their loyalty may be questionable. A reserve of 1m men might theoretically be mobilised—all those who are within five years of completing their military service—but it would probably be poorly disciplined, and of very limited use.

Russia spends more on its armed forces than any other country save China and America—$88 billion in 2013, half as much again as Britain. According to SIPRI, a research institute, its spending is increasing fast as deficiencies exposed in the 2008 war against Georgia are put right. On the other hand, Ukraine's military spending amounted to $2.4 billion last year. Its forces are mainly equipped with Soviet-era tanks and field guns. Ukraine's 36 SU-27 fighter aircraft are based in Crimea, and thus grounded. It has 90 smaller MiG-29s and some other aircraft capable of ground-attack missions, according to the latest edition of the "Military Balance" published by the International Institute for Strategic Studies. But they would be overwhelmed by the far greater number of similar aircraft carrying more up-to-date missiles and radars that Russia has at its disposal. Uk-


the
imagination
and the other

raine's air-defence system is a ropy Soviet-era remnant.

And Ukraine's forces are in the wrong place, positioned in the West as if to counter an attack from NATO. Without significant bases or pre-positioned equipment east of the Dnieper river, which divides the country, Ukraine's armed forces would be unable to offer much resistance to Russian military incursions. NATO's Supreme Allied Commander in Europe, US Air Force General Philip Breedlove, says that the force Russia has deployed along the border "is ready to go and we think it could accomplish its objectives in between three and five days if directed to make the actions."

Much depends on what those objectives would actually be. One possibility is opening up a land corridor to Crimea through Donetsk and Mariupol. Another is a corridor extending from Crimea to Transdniestria, a pro-Russian breakaway territory in Moldova which is home to a Russian army, by way of Odessa. A third, extreme, option might be splitting the country along the Dnieper.

However, Russian military planners are almost certainly advising Vladimir Putin that, although an incursion with a strictly limited objective against weak defences might easily be achieved, occupying a large tract of land against the wishes of most of the people who live there is far harder. Getting bogged down and exposed to attacks by Ukrainian irregular forces would be all too likely. Stationing lots of troops in Ukraine indefinitely would have ramifications elsewhere, stretching forces in volatile regions such as the north Caucasus and Central Asia. On top of this, Mr Putin cannot be entirely confident about how his forces would perform. Their post-Georgia modernisation is a work in progress, with poor command and control and logistics hampered by incompatible equipment.

According to a recent biography of Mr Putin, one of his first KGB instructors complained that he had "a lowered sense of danger". Faced with a decision to send his forces into Ukraine or stand them down, it is possible that not even he yet knows which he will choose. ■

Ready to fly

Financial sanctions

Turning off the taps

There is more that could be done to punish Russia

IT IS one thing to see Russia's hand in the disruption in eastern Ukraine, quite another to muster the strength to arm-wrestle it back. Europe says meekly that it will expand its list of Russian citizens subject to travel bans and asset freezes. America, which faces less economic blowback from sanctions, is showing more resolve.

Having targeted senior Kremlin figures, an oligarch and Vladimir Putin's favourite bank in three earlier rounds of measures, America is preparing to add more of the president's allies to the list. It has been reported that Igor Sechin, the president and chairman of Rosneft, a giant state-owned oil company, could join Gennady Timchenko, who has called being sanctioned "quite an honour" while admitting it has caused problems for Gunvor, the oil-trading firm he co-founded, because banks are "frightened". The limited sanctions already in place are having a chilling effect on business in Russia (see page 56). A Treasury official points out that more capital has left Russia so far this year than in the whole of 2013, and that stocks, bonds and the rouble have all fallen. Now the White House has mooted targeting whole sectors, such as financial services and energy.

Finance is the obvious place to start because of the pre-eminence of the dollar, America's central role in the clearing of cross-border bank and credit-card transactions, and the American-led globalisation of money-laundering compliance. These make America's unilateral actions multilateral. "Russia is much more vulnerable in finance than we are. Putin knows this, which explains his attempts in recent years to reduce reliance on the dollar in international trade and banking," says Juan Zarate, a former deputy national security adviser and author of "Treasury's War", a book about financial statecraft.

Bank Rossiya, the only bank sanctioned so far, has been cut off by Visa and MasterCard and forced to cease foreign-currency operations. (On the plus side, Mr Putin has opened an account.) Sanctions lawyers think Rossiya was selected to hint at the broader damage that could be wrought on Russian banking. Bigger banks, which are even more reliant on access to dollars and foreign "correspondent" relationships, could soon become stressed if sanctioned.

Such sanctions have been used increasingly since the 1990s, and their fans point to various successes. The freezing of North Korean assets in a Macau bank in 2005 helped nudge Pyongyang back to the negotiating table, they say. The targeting of banks and firms linked to Iran's Revolutionary Guard, combined with an oil embargo, helped soften Tehran's stance over its nuclear programme.

Mr Zarate suggests going after Russian banks suspected of helping to sell arms to Syria or trading with North Korea. The Patriot Act allows America to designate entities or even whole classes of transactions as "primary money-laundering concerns". Another possibility is to step up investigations of dirty Russian money held offshore, tied to concerns about tax evasion and links to organised crime. "If America put the same forensic effort into probing this as it has in following the money of terrorists and drug-traffickers, it could cause great discomfort," says a former official.

This could be amplified by requiring enhanced monitoring of Russian-linked accounts and property investments. International banks are in no mood to quibble; some accused of aiding launderers or sanctions-busters have been fined heavily and criticised in congressional hearings. JPMorgan Chase has plenty to lose by annoying Moscow; it earned $51m in Russian investment-banking fees last year, according to Thomson Reuters. It has nevertheless been blocking transfers first and asking questions later if there is the slightest hint of a link to sanctioned parties. The Treasury has been deliberately vague about how strong such links have to be, enhancing the sanctions' impact. "If one bank or company stops doing business with an entity, so does everyone else. No one wants to be an outlier," says Judith Lee of Gibson Dunn, a law firm.

Sanctions will have collateral damage; hit Rosneft and you hurt BP, which owns 20% of it, and ExxonMobil, its partner in various projects around the world. They could also invite countermeasures. Russia could choose to investigate foreign investors (as it has done wayward oligarchs) for tax "irregularities". It could enlist its hackers to destabilise American banks and exchanges. Lest anyone doubt Russia's mischief-making potential, remember its proposal to China in 2008 that the two countries dump their holdings of debt issued by Fannie Mae and Freddie Mac so as to exacerbate the financial crisis and force a bail-out. The offer was declined.

Another potential problem is that financial sanctions can be hard to remove. Take the interim deal with Iran, inked last November. It calls for $4 billion in oil revenue, frozen in accounts overseas, to be handed back in stages. But its release has been delayed because banks are still terrified of violating sanctions and being shut out of dollar transactions. For the time being, though, being unable to loosen penalties imposed on Russia ranks low on the sanction-setters' list of worries. ■

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Women, work and children

The return of the stay-at-home mother

WASHINGTON, DC

After falling for years, the proportion of mums who stay at home is rising

EACH suburban housewife, wrote Betty Friedan in 1963, struggles with a single question as she makes the beds, shops for groceries, chauffeurs children about and lies beside her husband at night: "Is this all?" A few years after her ground-breaking book "The Feminine Mystique" was published, the Census Bureau began collecting data on the proportion of mothers who opt to stay at home. Over the subsequent decades the statistics answered Friedan's question with a heartfelt no.

In 1967 the share of mothers who did not work outside the home stood at 49%; by the turn of the millennium it had dropped to just 23% (see chart 1). Many thought this number would continue to fall as women sought to "have it all". Instead, the proportion of stay-at-home mothers has been rising steadily for the past 15 years, according to new data crunched by the Pew Research Centre.

This partly reflects demographic change. Immigrants, a rising share of the relevant generation, are more likely to be stay-at-home mums than women born in America. There is an economic component to the change, too: at the end of the 1990s, when mothers staying at home were at their rarest, the economy was creating so many jobs that most people who wanted work could find it. Now more report that they are unable to do so, or are studying in the hope of finding work later. But there is also an element of choice: a quarter of stay-at-home mothers have college degrees.

Taken as a whole, the group includes mothers at both ends of the social scale (see chart 2). Some are highly educated bankers' wives who choose not to work because they don't need the money and would rather spend their time hot-housing their toddlers so that they may one day get into Harvard. Others are poorer but calculate that, after paying for child care, the money they make sweeping floors or serving burgers does not justify the time away from their little ones.

The first group is fairly small. Pew estimates that there are 370,000 highly educated and affluent stay-at-home mothers (defined as married mothers with children under 18 who have at least a master's degree and family income in excess of $75,000). That is 5% of all stay-at-home mothers with working husbands. One-third of stay-at-home mothers are single or cohabiting, and on average they are poorer than the rest.

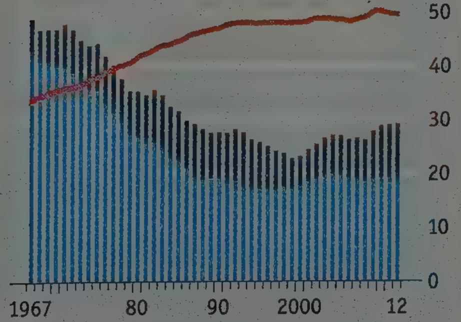
The increase in stay-at-home mothering sits oddly with a second big trend affecting women's lives: their relative success in the labour market. Women now hold half of the jobs in America, up from 32% in 1964. Women lost just one job during the recession for every 2.6 jobs lost by men, according to the Bureau of Labour Statistics (though men have since staged a recovery). At the highly skilled end of the jobs market, women are in a strong position: they earn 57% of all bachelor's degrees awarded by universities. The same is true in the low-skilled bit. The industries where the government expects the most employment growth between now and 2022, such as health care and hospitality, are mostly dominated by women. Unless ▸▸

The nameless terror

Mothers with children under the age of 18 who do not work outside the home, %:

married with working husband; single/cohabiting/other

Jobs held by women, % of total



Sources: Pew Research Centre; Bureau of Labour Statistics

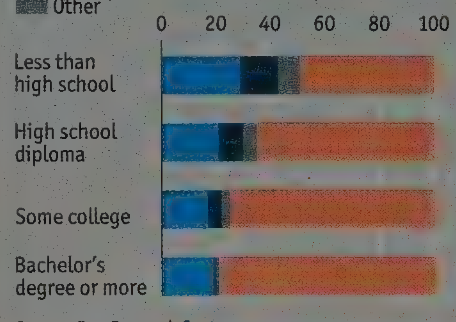
But they all feel equally guilty

Mothers with children under the age of 18

2012, % of total

Stay-at-home: Married with working husband; Single; Other

Working



Source: Pew Research Centre

men become more like women, the argument goes, changes in the structure of the economy will consign many of them to futures as indolent sperm donors.

How can women be taking over the workplace while simultaneously opting out of it? The answer is that men have been quitting the labour force even faster. Overall labour-force participation (for both sexes) has been declining since 2000, but for men it has fallen faster (from 75% to 69%) than for women (60% to 57%). In 40% of households with children a woman is now the primary breadwinner, though in most of those cases (26% of the total) that is because she is the only one.

Where women continue to lag is in their earnings relative to men. "The average full-time working woman earns just 77 cents for every dollar a man earns," said Barack Obama on April 8th, adding: "That's an embarrassment. It is wrong." As he signed a pair of executive orders that would compel federal contractors to provide data on the pay and sex of their workforce, he tut-tutted: "Equal pay for equal work. It's not that complicated."

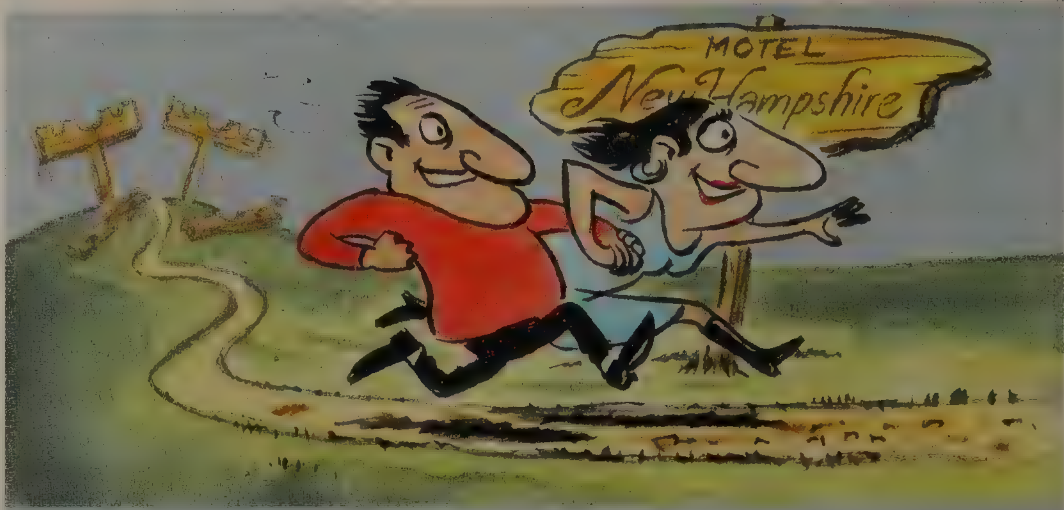
Actually, it is a bit more complicated than Mr Obama pretends. If employers could really get the same work done for 77 cents on the dollar by hiring women, they would do so, and their shareholders would gleefully pocket the extra profits. The 77 cents statistic, which Mr Obama cites often, compares apples with oranges.

The nonsense of "77 cents"

Men in "full-time" work do indeed make more than women, but this is partly because they work longer hours (full-time here means 35 or more hours a week). Men also cluster in some of the better-paid professions: they are 87% of engineers but only 16% of teachers. They do more dangerous jobs: 92% of work-related deaths are of men. Most important, men are far less likely than women to take hefty career breaks when children arrive. Single, childless women earn 95 cents for every dollar a single, childless man makes, which is hardly the stuff of campaign slogans.

However, as the mid-terms loom, Democrats are anxious to turn out female voters, 55% of whom voted for Mr Obama in 2012. Waxing indignant about sexism may help rally support for Democratic candidates. But will it help women struggling to juggle the demands of work and family?

Policies that make it easier for women to stay in work after having children, should they choose to do so, would probably be more constructive. America is unusual in not granting statutory paid maternity (or paternity) leave or providing much affordable child care. Both policies were recommended by a commission headed by Eleanor Roosevelt shortly before "The Feminine Mystique" was published, but have been largely ignored. ■



Adultery in New England

Love free or die

Time to check into the Motel New Hampshire

AFTER 223 years New Hampshire is about to make adultery legal. A law in 1791 called for convicted adulterers to be paraded on the gallows for an hour and then "publicly whipped not exceeding 39 stripes" before being sent to prison and fined £100 (probably more than a year's wages in those days).

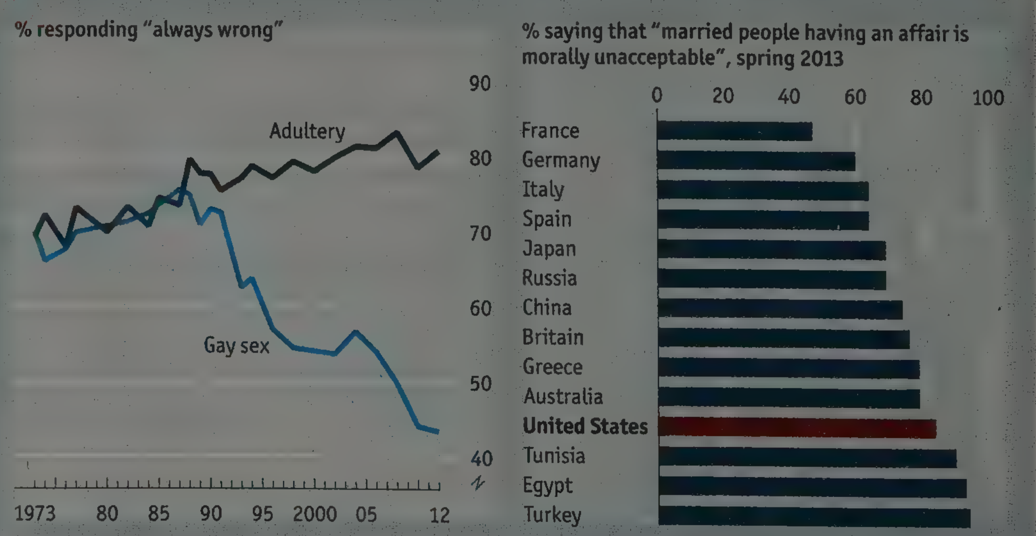
The penalty has grown milder since then. Adulterers now face a $1,200 fine, which is not enforced. New Hampshire's state House of Representatives voted to repeal the law in February; the state Senate is expected to follow soon. Not everyone is happy. A letter to the *Concord Monitor* huffed that adultery was "repugnant" and should remain a crime.

More than 20 states still have laws against adultery. Colorado (the state of Gary Hart, whose adultery cost him dear in the 1988 presidential race) did not decriminalise it until last year. Courts rarely hand down convictions; the most notable of recent times was in Massachusetts in 1983, when two policemen caught a married man and woman having sex in a van. They weren't married to each other, and the woman, who challenged the charge, was fined $50.

Few Americans want the state to police their bedrooms, but 93% think adultery is morally wrong, a recent CNN poll found. That view has stiffened over the past few decades, even as attitudes to homosexuality have softened dramatically (see chart). This may be because, since the liberalising 1960s, Americans now know more about the real-world consequences of both. Many grow up at ease with gay friends but upset by their parents' divorces.

How many Americans have strayed? In the General Social Survey, 15% of wives and 21% of husbands admitted to it. But a separate survey found that 74% of men and 68% of women said they would indulge in an affair if they knew they wouldn't get caught. The law may no longer punish cheaters, but their spouses will if they find out.

It's fine to be gay but not to stray



Sources: NORC; Pew Research Centre


BRINGING WHAT'S OUTSIDE IN.
Imagine a company where dining services aren't tied to cafeterias. If we can dream it, we can do it. Our business dining solutions provide employees access to options by offering service in original ways. Whether it's working with businesses, hospitals, stadiums, or universities, innovative customer service is at the heart of what we do.
WE DREAM. WE DO.
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Los Angeles

Clipped wings

LOS ANGELES

A gloomy report card for the City of Angels

LIKE protagonists in a Hollywood movie, Los Angeles seems always to be hurtling towards triumph or disaster. In 1988 the LA 2000 Committee declared that its strategic site and magnetic powers to attract capital and labour would make Los Angeles "THE city of the 21st century", just as New York, London and Paris had owned previous eras. Writing 25 years later, the Los Angeles 2020 Commission discloses a darker vision for America's second city. In two reports with names that might have been borrowed from clapped-out action thrillers ("A Time for Truth" and "A Time for Action") the commission paints a picture of a city in steep decline and a leadership sluggish in thought and action.

Four years after its report, the optimistic spirit of the LA 2000 Committee went up in smoke in the Los Angeles riots. The city is much safer now, but the 2020 commission has grounds for pessimism. The problems outlined in its first report, published in December, are serious: dismal public schools, crumbling infrastructure and soaring employee costs. A city still celebrated as a place of dynamism and opportunity is unable to create jobs for its growing workforce. Since 1990 total employment has actually fallen, though that figure disguises some wild fluctuations (see chart). In 2012 the official poverty rate for Los Angeles County was 19.1%; in 2011, on a broader measure that takes the cost of living and government benefits into account, it stood at 26.9%. Even Hollywood is tottering, as film and TV producers are lured away by tax bribes in other states.

Back to basics

It was against this backdrop that Eric Garcetti (pictured), the mayor of Los Angeles, delivered his first state-of-the-city address on April 10th and, four days later, his first budget proposal, worth $8.1 billion. Both followed the understated approach to governing that Mr Garcetti has adopted since taking office last June. Unlike his recent predecessors, the mayor proposed no showstopping initiatives or benchmarks against which he could be judged. His would be a "back-to-basics" regime, he declared. The big news from the state-of-the-city address was that a motorway lane would open a few months earlier than expected.

Young, smooth and charming, the mayor is easy to like. He talks a good game on transparency and transport, and can speak frankly about some of the city's problems. City Hall, he said last week, had become a place "where jobs go to die, strangled by bureaucracy and indifference". In a recent public forum your correspondent received a mayoral correction when he noted that Mr Garcetti had described terminals at Los Angeles's airport as terrible; the word he had actually used, the mayor said, was "crappy".

Yet some observers are asking when all this real talk will translate into action. Few of the pledges Mr Garcetti made last week were costed or came with deadlines. By budget day his campaign vow to scrap the city's gross-receipts business tax had shrivelled to a plan to snip it from 0.51% to 0.425% over the next four years (although he continues to promise its elimination). Sceptics grouch that they have no idea what the mayor spends his time doing.

Such complaints are merely the mutterings of the commentariat, says Raphe Sonenshein, head of the Pat Brown Institute at California State University, Los Angeles. Angelenos, never as concerned with the high politics of city government as their peers in New York or Chicago, worry about such things as potholes and electricity bills (Los Angeles's Department of Water and Power is the largest municipal utility in the United States). Mr Garcetti has devoted much time to tinkering with the city's bureaucracy; such manoeuvrings may not attract headlines, says Mr Sonenshein, but they are more likely to yield results than the expansive visions of some of his predecessors, which often flopped. Mr Garcetti emphasises that he wants to turn Los Angeles into America's "best-run" city.

Yet that leaves many questions unanswered. In 2003 retirement costs accounted for 3% of the city's general fund; now they gobble up 18%, a figure that will rise further without action. Los Angeles's public schools, which mainly serve Latino children, perform poorly, raising fears of stratification along ethnic as well as economic lines. Some American mayors have tackled these issues head-on, reforming pension plans or pushing charter schools. Mr Garcetti has had little to say about them (schools, admittedly, lie largely outside his jurisdiction, but that has not stopped other mayors from piping up).

The same could be said for another threat to Los Angeles's economic future. Rising house prices drive so many Angelenos out that the population of the metropolitan area grew by only 3.7% between 2000 and 2010, slower than every other big metro area bar New York. As elsewhere along the Californian coast, high demand and supply constraints have conspired to lift prices; and often it is middle-income residents who are forced to leave. House prices in Los Angeles rose by 17% last year, and last October Trulia, a real-estate website, found that Los Angeles was the second-least affordable city for middle-class housing in America, behind San Francisco.

In a city not known for restraint, Mr Garcetti's approach can be refreshing. But it is too soon to determine whether it is working. A sterner test than he has yet faced may lie before him, in the form of one of the disasters, natural or man-made, that befall the city from time to time, or a fiscal crunch that could force a hard decision on taxes (vast deficits are projected for years). If not, his challenge will be to demonstrate that his modest proposals are enough to tackle Los Angeles's deep-seated problems. ■

Nothing flashy about Garcetti

Infrastructure

Highways to hell

CHICAGO

A harsh winter and tight budgets mean lots of potholes

ONLY the drunk, they say, drive in a straight line in Chicago. The sober zigzag to avoid falling into the city's axle-breaking potholes. This year the craters, caused by continual freezing and thawing, are worse than ever, and the spring thaw has brought three times the usual number of complaints from citizens.

As winter retreats, holes in roads and budgets are being revealed—especially in midwestern states, which were hit hard by the polar vortex. Those states with money have made emergency appropriations for repairs; those without will have to cut summer programmes. This means not mowing the grass in parks or picking up litter. It also means delaying resurfacing of highways or fixing guard rails, and putting off capital spending.

Looking after America's roads is a persistent headache. Although $91 billion is spent on them every year, that is nowhere near enough to keep the country's 4.1m miles (6.6m km) of public roadways in good nick. The Federal Highway Administration estimates that $170 billion in capital investment is needed every year. Last year a report from a civil-engineering group said that 32% of America's major roads were in poor or mediocre condition. Main roads through cities were in worst shape: almost half the miles travelled over urban interstates in 2013 were a bumpy ride. Ray LaHood, a former transport secretary, thinks the roads are probably in the worst shape they have ever been.

Dirty deeds done dirt cheap

You shook me all night long

Highway finance comes from two main sources: cities and states, and the federal Highway Trust Fund (HTF). The HTF spends $46 billion a year and is funded by a tax of 18.4 cents on each gallon of petrol. But revenues are declining: the young drive a bit less and cars burn fuel more efficiently. Since American voters hate energy taxes, the petrol tax has not increased since 1993 and its purchasing power has declined. Adjusted for inflation, it is now worth only 11.5 cents. Had it been indexed to inflation 20 years ago (says the Centre for American Progress, a leftish think-tank), it would now be 29 cents a gallon.

The transport department reckons the highway fund will dip below $4 billion in July. That is the minimum the administration says it needs to help states meet day-to-day expenses. The American Association of State Highway and Transportation Officials says Congress must come up with $15 billion-17 billion to keep the fund solvent next year. It could either patch up the fund with another tranche of money—as it has done in the past—or refinance it by raising the petrol tax and linking this to inflation. So far, it has done neither. Options are narrow: a Gallup poll last year found that two-thirds of Americans opposed a rise in the federal petrol tax for any reason.

States also levy their own taxes, and some, such as Michigan, have been able to increase their road budgets. Massachusetts, together with Maryland and Wyoming, has managed to put up its petrol tax. Pennsylvania has imposed a tax on petrol wholesalers, which—officials seem to hope—may be less visible at the pump. In Ohio toll-revenue bonds have been issued. In Missouri a 1% increase in the sales tax for ten years has been proposed, though it may not become law. (A state representative remarked sardonically that 40% of Missourians would oppose a new tax even if it was being used "to construct the landing pad for the second coming of Christ".)

Other states, however, cannot cope without a large federal infusion. This may be because they have lots of roads and not many people to tax, or because their finances are shaky, like Rhode Island's. In testimony to Congress in March, Rhode Island's director of transport said that if historical funding levels were not restored, and even with increased local investment, the state would be "managing the decline of its infrastructure". Sue Minter, the deputy secretary of Vermont's transport department, warned that "project delays will become cancellations".

The HTF will probably be patched up; this is, after all, an election year. But states are worried. In Arkansas ten projects worth $60m—such as two bridge replacements in Pulaski County, round Little Rock, and the widening of north-south Route 63—have been taken off a list scheduled for funding this April. In Colorado plans to add a third lane to the I-25 between Denver and Fort Collins are in doubt, as the $1 billion project needs federal support.

Some states wonder whether tolling might raise revenue for new roads. Illinois recently won planning approval for a $1.3 billion toll road to Indiana. Forty-two states and the District of Columbia now have some sort of tolling authority. These are increasingly popular ways of financing new roads, although the slight decline in driving, and an unwillingness to pay high fees, have threatened this model in some cases. The Intercounty Connector, built to ease congestion in the suburbs of Washington, DC, costs $8 for a round trip and has failed to meet traffic projections.

Moreover, federal law does not allow tolling on existing interstates. The US Tolling Coalition, a lobby group of building companies and contractors, would like Congress to give more states the chance. But a new anti-toll lobby called the Alliance for Toll-Free Interstates (mostly composed of shipping companies) wants to prevent it, and any change in federal law will be fiercely tussled over.

Some argue that America needs to borrow more to pay for better infrastructure. This is already happening. The new $3.9 billion Tappan Zee bridge over the Hudson river in New York is financed with bonds that will be paid for by tolls. A $2.5 billion project, the North Tarrant Expressway in Fort Worth, Texas, borrowed $531m from a federal fund known as TIFIA (the Transportation Infrastructure Finance and Innovation Act), set up in 1998 to provide loans or lines of credit for improvements to "eligible transportation surfaces".

Down payment blues

Loans must still be repaid, whether from tolls or taxes. Yet citizens seem to be more willing to stump up for local roads through local initiatives, whether higher taxes or vehicle-registration fees. Ken Orski, a transport analyst, points out that on election day in 2013 70% of ballot measures to increase or extend funding for surface transport were approved. Last year, voters in Arkansas agreed to a half-cent increase in the sales tax for highway improvements. The way ahead, perhaps? ■

Parole and technology

Prison breakthrough

Big data can help states decide whom to release from prison

IN MONTY PYTHON'S "Life of Brian", the Jerusalem crowd picks wrongdoers for Pontius Pilate to release according to whether their names begin with "r", since they find it amusing that the Roman governor cannot pronounce that letter. ("Welease Woger!"). Two thousand years later, America aims to select prisoners for parole by more rational criteria, such as "Are they likely to re-offend?"

It turns out, however, that granting parole wisely is hard. Parole boards may be biased, perhaps without realising it. In general, they tend to overestimate the likelihood that a prisoner will re-offend, says Lance Lowry of AFSCME Texas Correctional Employees, a warders' union. Many fear that if they free a thug who then commits an atrocity, their reputation will be ruined.

This makes them err on the side of severity. In Ohio, for example, a paroled murderer was arrested last year for allegedly murdering a 13 year old girl. (He later died in custody.) The parole board took a beating in the press. Being granted parole in Ohio is now only slightly more likely than winning the lotto, says Barry Wilford, a local lawyer. Among applicants given hearings, in some months less than 1% are released. (In neighbouring West Virginia the average is 48%.)

Help may be at hand, in the form of "risk-assessment" software, which crunches data to estimate the likelihood a prisoner will re-offend. Such software tends to increase the proportion of applicants who are granted parole while also reducing the proportion who re-offend. Two such programmes, LSI-R and LS/CMI, appear to reduce parolee recidivism by about 15%. Developed by Multi-Health Systems, a Canadian firm, they were used to assess 775,000 parole applications in America in 2012. Four-fifths of parole boards now use similar technology, says Joan Petersilia of Stanford University.

The data that matter include the prisoner's age at first arrest, his education, the nature of his crime, his behaviour in prison, his friends' criminal records, the results of psychometric tests and even the sobriety of his mother while he was in the womb. The software estimates the probability that an inmate will relapse by comparing his profile with many others. The American version of LS/CMI, for example, holds data on 135,000 (and counting) parolees.

It is better to be guided by software than one's gut, says Olivia Craven, head of the Idaho Commission of Pardons and Parole. Donna Sytek of the New Hampshire Parole Board agrees. Unaided, parole board members rely too much on their personal experiences and make inconsistent decisions, she says.

Software can be used to help make better decisions not only about whom to release, but also about how to manage parolees on the outside. South Carolina uses a programme called COMPAS, developed by Northpointe Inc, an American firm, to help with rehabilitation. It tells officials which factors are likely to be "feeding into" a person's criminal behaviour, says Shaunita Grase, the official in charge of making it work. If COMPAS concludes that a parole applicant's delinquency was fuelled more by lack of education than, say, household strife, it might make sense to let him live at home as long as he attends evening classes. If his education is irrelevant, limited resources might be better spent on, say, anger-management training.

In some cases, software may actually reduce crime. ORAS, a programme designed for the Ohio Department of Rehabilitation and Correction, flags the low-risk criminals whose likelihood of reoffending actually increases the longer they are locked up alongside violent criminals. So says Jennifer Lux, an ORAS designer at the University of Cincinnati's Centre for Criminal Justice Research.

Some officials dislike all this new technology, notes Mr Lowry. Some resent having their gut feelings overruled. Others are sorry that software makes it harder to disguise political favours, such as respecting the wish of a state senator to see the man who burgled his house denied parole.

However, it meets a need. America's prisons are overcrowded—with less than a 20th of the world's population, it locks up nearly a quarter of prisoners—and ruinously expensive. If software helps cut the cost of incarceration without endangering the public, states will surely use it. ■

Christian films

They are risen

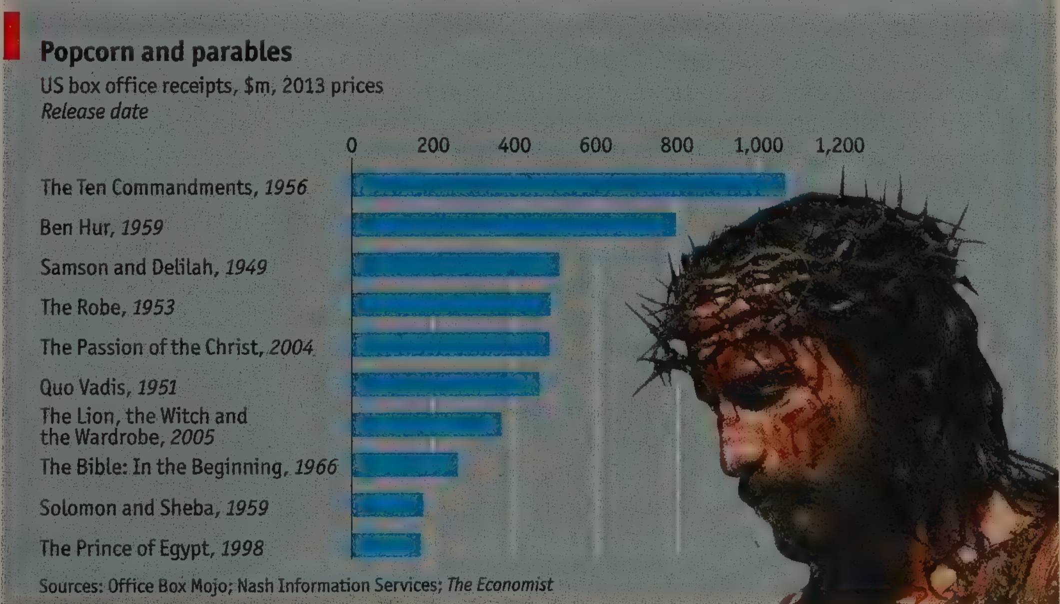
NEW YORK

Prophets and profits

AFTER "Noah", the deluge? On Easter Sunday those who yearn for a biblical film are spoiled for choice. "Heaven is for Real" opens on April 16th. "Noah", starring Russell Crowe, has already grossed around $85m in America and double that abroad. Three religious films released in 2014—"Noah", "Son of God", and "God's Not Dead"—have done well at the box office, though not well enough to make the all-time top ten (see chart).

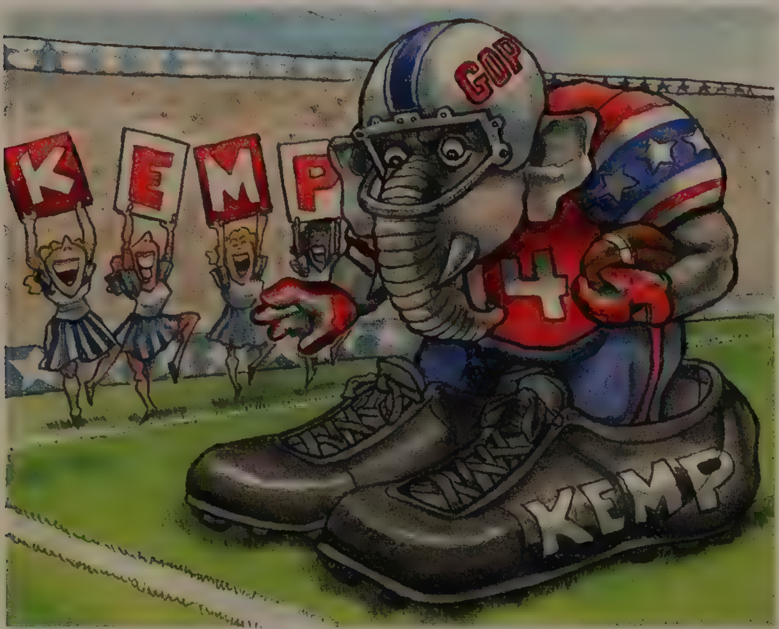
Some Christians complain when films like "Noah" go off-scripture, but others are happy to see holy tales given the Hollywood treatment. Church groups have been renting out cinemas to watch the films together.

In the 1950s biblical epics such as "The Ten Commandments" and "Ben Hur" enjoyed Babylonian budgets. In later decades Christian films had to start with only a few talents, and not many besides Mel Gibson's "The Passion of the Christ" earned miraculous returns. Nowadays, however, name recognition is all the rage, and Bible figures are better known even than Harry Potter. Later this year Fox will release "Exodus: Gods and Kings", starring Christian Bale as Moses. Charlton Heston is a tough act to follow: "The Ten Commandments" is the most commercially successful religious film ever, when takings are adjusted for inflation. But sometimes you have to have faith.



Lexington | The Jack Kemp revival

Learning from a quarterback turned "happy warrior" of supply-side economics



AMERICAN football "combines two of the worst things in American life", said George Will, a baseball fan. "It is violence punctuated by committee meetings." That sounds like good training for politics, so it is odd that so few football stars have won high office. Jack Kemp, a quarterback for the Buffalo Bills, was an exception. He became a Republican congressman, an ideas man for the Reagan revolution and, in 1996, vice-presidential running mate to Senator Bob Dole. Now, long after his retirement from elected politics and five years after his death Kemp is enjoying a revival, with tributes and name-checks from Republicans who believe that the party must broaden its appeal, notably among the young, women, Hispanics, blacks and other voter blocs who suspect that the American Dream may be a mirage.

In a way, this is a surprise. In his heyday Kemp was a radical, fighting a consensus in favour of big government and high taxes. Slash taxes and the Treasury will actually collect more money, Kemp and his allies predicted, as the economy creates new wealth and jobs—doing more to lift up the poor than any bossily bureaucratic welfare scheme. ("Voodoo economics", sniffed the elder George Bush). Kemp could be a bit relentless: even friends admit they sometimes ducked down another congressional corridor when they heard him coming.

But a quarterback's charisma saved him, buttressed by his palpable, heart-on-sleeve compassion. Even opponents were disarmed by his willingness to preach the joys of free enterprise in union halls, black community meetings or urban housing projects. Many saw a link to his sporting years. As congressional colleagues joked: "Jack Kemp has showered with more black men than most Republicans meet in a lifetime."

A central Kemp idea was eliminating tax traps that squeeze the poor if they move from welfare into work. Senator Marco Rubio of Florida, a putative contender for the 2016 presidential nomination, has some very Kempian ideas about simplifying welfare programmes and using wage subsidies to make work pay. Mr Rubio has also backed immigration reforms that would bring millions out of the shadows. Kemp, an immigration advocate who battled nativists in his party, would surely have cheered (and sympathised when Mr Rubio endured a backlash from the right).

Senator Rand Paul of Kentucky, another 2016 prospect, has pushed low-tax, deregulated "economic freedom zones" for such blighted cities as Detroit, proudly calling them a version of an old Kemp scheme, but "on steroids". Representative Paul Ryan, the 2012 vice-presidential candidate, has called Kemp a "mentor" since landing a job, aged 23, at a think-tank Kemp founded. Of late Mr Ryan has been spending time deep in Kemp territory, visiting church-run anti-poverty schemes in minority neighbourhoods.

Such moves to expand the party's appeal mark a break with the tin-eared 2012 Republican presidential campaign of Mitt Romney (whose team discouraged Mr Ryan from addressing Hispanic and black audiences, an insider sighs). That campaign reached an un-Kempian nadir when Mr Romney was caught on tape at a donors' dinner, dismissing the 47% of Americans who paid no federal income taxes as "dependent" on government and never likely to vote Republican. Not only were Mr Romney's remarks politically disastrous; he overlooked the fact that it was a long-standing conservative goal, championed by Kemp and Ronald Reagan, to remove low-earners from the tax rolls.

Yet today's Kemp revival is selective. In 1988 he failed to win the Republican presidential nomination and he would flunk a party primary today, suggests Mort Kondracke, co-author of a forthcoming Kemp biography. As a hawkish cold warrior, he would loathe the pull-up-the-drawbridge foreign policies favoured by Mr Paul and the isolationist right. A self-styled "bleeding-heart conservative", Kemp angered colleagues by arguing against cuts in social spending in hard economic times. Growth takes care of deficits, he argued, warning his party against being "green-eyeshade" types obsessed with austerity.

Explaining why he differs from his former mentor on this, Mr Ryan points out that Kemp worked in an age when far smaller sums went on pensions, health care for the old and other social transfers, and deficits were less of a worry. Mr Ryan, a more austere fiscal conservative, calls himself a "second-generation supply-sider", living in a "more difficult" age.

What really draws today's Republicans to Kemp is an attitude of mind. Mr Ryan hails his old friend for representing an inclusive, "confident" strand of conservatism. Without naming names, Mr Ryan draws a contrast with "insecure" conservatives, focused on "purifying the ranks and burning heretics, rather than on winning converts". Will Kempian confidence win the day? For the Republicans' sake, it had better.

Don't fear the voters

Kemp called the Republicans "America's natural governing party"—as long as they were willing to compete to defend their ideas. Americans, he warned conservatives, can lose trust in a majority party, if that majority party "loses faith in democracy". Old friends hear a sportsman speaking. Kemp was smallish for a modern quarterback, notes Senator Dan Coats of Indiana: he succeeded through strength of will, first in football, then in politics. David Hoppe, a former Kemp aide, quotes a favourite dictum: "Jack used to say, if we have better ideas, we will win."

Today's Republicans should pay heed. Too many boast that America is a majority centre-right country—only to turn round and enthuse about low-turnout mid-term elections, in which the young, the poor and minorities are less likely to vote. Worse, too many Republican state governments seem drawn to policies that shrink the electorate, from purging felons from voter rolls to curbing early voting. No sports team would long thrive if it ran from free and fair competition. Why should politics be different? ■

Also in this section

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Brazil's economy

The 50-year snooze

SÃO PAULO

Brazilian workers are gloriously unproductive. For the economy to grow, they must snap out of their stupor

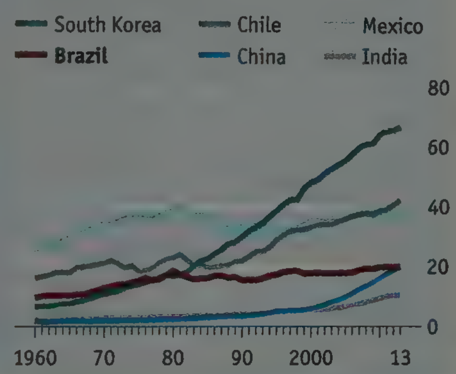
PECKISH revellers at Lollapalooza, a big music festival in São Paulo earlier this month, were in for a treat. In contrast to past years' menus of reheated hamburgers, they could plump for pulled pork, barbecue ribs or corn on the cob, courtesy of BOS BBQ, a Texan eatery in the city. More surprising than the fare, however, was the pace at which BOS's two tents dished it out. Over the course of two days the booths, each manned by six people, served 12,000 portions, or more than one every 15 seconds, boasts Blake Watkins, who runs the restaurant. Such efficiency is as welcome as it is uncommon. Neighbouring stands needed two to three minutes to serve each customer, leading to lengthy lines and rumbling stomachs.

"The moment you land in Brazil you start wasting time," laments Mr Watkins, who moved to the country three years ago after selling a fast-food business in New York. To be sure of having at least ten temporary workers at Lollapalooza, he hired 20 (sure enough, only half of them turned up). Lu Bonometti, who opened a cookie shop 18 months ago in a posh neighbourhood of São Paulo, has commissioned four different firms to fix her shop sign. None has come. Few cultures offer a better recipe for enjoying life. But the notion of opportunity cost seems lost on most Brazilians.

Queues, traffic jams, missed deadlines and other delays have been so ubiquitous for so long that "Brazilians have become anaesthetised to them", says Regis Bonelli of Fundação Getulio Vargas, a business school. When on April 12th the boss of the state-owned operator suggested that large chunks of the airport in Belo Horizonte that will not be refurbished in time for the football World Cup in June should simply be "veiled", his remark elicited no more than a shrug of resignation.

Time to wake up

Labour productivity, GDP per employed person
$'000 at PPP*, 2013 prices



Source: The Conference Board *Purchasing-power parity

Apart from a brief spurt in the 1960s and 1970s, output per worker has either slipped or stagnated over the past half century, in contrast to most other big emerging economies (see chart). Total-factor productivity, which gauges the efficiency with which both capital and labour are used, is lower now than it was in 1960. Labour productivity accounted for 40% of Brazil's GDP growth between 1990 and 2012, compared with 91% in China and 67% in India, according to McKinsey, a consultancy. The remainder came from an expansion of the workforce as a result of favourable demography, formalisation and low unemployment. This will slow to 1% a year in the next decade, says Mr Bonelli. If the economy is to grow any faster than its current pace of 2% or so a year, Brazilians will need to become more productive.

Economists trot out familiar reasons for the performance. Brazil invests just 2.2% of its GDP in infrastructure, well below the developing-world average of 5.1%. Of the 278,000 patents granted last year by the United States patent office, just 254 went to inventors from Brazil, which accounts for 3% of the world's output and people. Brazil's spending on education as a share of GDP has risen to rich-world levels, but quality has not, with pupils among the worst-performing in standardised tests. Mr Watkins complains that his 18-year-old barbecuers have the skills of 14-year-old Americans.

Less obviously, many Brazilian companies are unproductive because they are badly managed. John van Reenen of the London School of Economics found that although its best firms are just as well run as top-notch American and European ones, Brazil (like China and India) has a long, fat tail of highly inefficient ones.

Preferential tax treatment for firms with turnovers of no more than 3.6m reais ($1.6m) has reeled many irregular enter- ▸▸

Clarification: Our Bello column on Chile (April 5th 2014) said that the country's proposed tax reforms would mean shareholders would be taxed on corporate profits they did not receive as dividends. Although firms would be required to pay personal income tax on behalf of shareholders on undistributed profits, shareholders will not need to stump up their own cash.

prises into the formal economy. But it discourages companies from growing. And as big fish in areas like retail make efficiency gains they need fewer workers, who instead swell the shoals of less productive minnows. Many hire trusted kith or kin rather than a better-qualified stranger, to limit the risk of being robbed or sued by employees for flouting notoriously worker-friendly labour laws. The upshot is even more inefficiency.

Instead of collapsing, feeble firms plod on thanks to various forms of state protection, which shields them from competition. Protectionism weighs on productivity in other ways, too. Punitively high tariffs on imported technology—such as the whopping 80% cumulative tax slapped on foreign smartphones—make many productivity-enhancing gizmos prohibitively expensive, says José Scheinkman of Columbia University. Rather than buy cheaper and better products from abroad, firms have to pay over the odds for lower-quality local ones.

Historical evidence points to a solution, thinks Marcos Lisboa of Insper university. The period of catch-up in productivity growth began in the 1960s, following a bout of liberal reforms engendered by years of near-autarkic industrial policy. A smaller uptick in the early 2000s also followed liberalising measures, enacted a decade before to stave off hyperinflation. Success notwithstanding, both the military dictatorship of 1964-85 and the leftist Workers' Party, which has held the presidency since 2003, soon reverted to interventionist type. Recently this has meant local-content requirements, subsidised fuel and electricity, and overweening regulation. Productivity has duly sputtered.

Mr Lisboa highlights two salutary examples from recent years. Agriculture was deregulated in 1990, allowed to consoli- ▸▸

Bello | Will the real Mr Santos please speak up

A tepid election fraught with risks for Colombia

UNTIL a few weeks ago, nobody seriously thought that Juan Manuel Santos would fail to win a second term in an election on May 25th. By any reasonable standard, his has been a good government. Colombia's economy is in decent shape, and unemployment and poverty have fallen steadily. Yet suddenly the polls suggest that Mr Santos is vulnerable. They give him 25%-35% of the vote, with the rest split among four rivals. So a run-off election (on June 15th) is likely: if his opponent is Enrique Peñalosa of the soft-left Green Alliance, Mr Santos would lose narrowly, according to one poll.

That would have huge implications for Colombia. For the election comes as the government and the FARC guerrillas are locked in peace talks which offer the country its best-ever chance of ending an armed conflict that has dogged it since the 1960s. Peace would not only improve Colombians' lives but add a point or more to economic growth, Mr Santos told Bello in an interview in his modest office in the Nariño Palace in Bogotá. Lose the election, and that chance might be gone for years. Yet paradoxically, this momentous election has failed to engage the voters. The political climate is barely tepid, and turnout threatens to be low.

There are several reasons for Mr Santos's sudden difficulties. Colombians don't much like the idea of presidential re-election, allowed only since 2006. A patrician economist, the president is more at home in the classrooms of the London School of Economics or Harvard than the villages of Colombia. He has overpromised, offering to reform every public policy in sight. Colombians recall the failures and take the successes for granted.

Awkwardly, the president's plan was that the peace talks, begun formally in October 2012, would be completed before the election. He took the wise decision not to declare a ceasefire during the talks—the guerrillas used past truces to rest and recruit. But the result is continuing attacks and atrocities, such as the recent murder of two off-duty police officers. Most Colombians approve of the peace talks in principle but remain sceptical that they will succeed.

Mr Santos's biggest political problem is his predecessor, Álvaro Uribe. They were once allies: Mr Santos served as Mr Uribe's defence minister; the support and popularity of Mr Uribe guaranteed him victory in 2010. But Mr Uribe, a pugnacious conservative, objects to the peace talks. He has unleashed a vitriolic personal campaign against Mr Santos, branding the president as a weak leader who is handing the country over to communism.

Faced with Mr Uribe's "lies and insults", Mr Santos says: "My policy is to ignore him". Yet the president's instinct to try to please everyone has led him to triangulate with the right. As his running mate, he picked Germán Vargas Lleras, a hardliner who until recently opposed the peace talks. Mr Santos has tried to deflect conservative ire by changing the subject, focusing his campaign on the economy and social policy.

But the biggest electoral threat to a second term lies not with Óscar Iván Zuluaga, the candidate of Mr Uribe, whose party won only 19% in a congressional election last month, but to the president's left. Mr Peñalosa, like Mr Santos, is an uncharismatic technocrat. He was a transformative mayor of Bogotá who can exploit Colombians' discontent with the status quo and the lack of an economic feel-good factor.

Mr Peñalosa says he would continue the peace talks, keeping the same negotiating team. But a change in command at this late stage of the talks would be hazardous. Although only two of the five points on the agenda have been agreed, that is the tip of an iceberg of understanding, expressed in more than 50 pages of detailed blueprints for implementing peace on the ground. Mr Santos says he hopes for a final accord by December.

The president's reluctance to campaign as a peacemaker is understandable—he would risk rendering himself hostage to a FARC attack—but looks mistaken. The FARC, whose ageing leaders know they have suffered strategic military defeat, have as big a stake as the president in peace.

An adviser to Mr Santos insists his campaign's own polling suggests a clear victory. Backed by the media and powerful machine politicians, it would be remarkable if he lost. But the president seems subdued and cautious; his campaign, with half a dozen different advisers, smacks of indecision. If he is to win a clear mandate, Mr Santos needs to face down Mr Uribe, assert his own agenda and tell Colombians that the peace process offers a historic opportunity to transform the country for the better.

date and gain access to foreign machines, fertiliser and pesticides. A few years later, financial services enjoyed far-reaching institutional reforms to boost the supply of credit and bolster capital markets. Both were left in peace—and became roughly 4% more efficient each year in the decade that followed. Brazilian soyabean producers are now the envy of the world. Mr Watkins, the restaurateur, praises the banking system as something that works more quickly in Brazil than it does in the United States.

Regulation is always hard to unwind, Mr Lisboa concedes. But if Brazil is to grow beyond 2020, when the working-age population will begin to decline as a share of the total, it will have to tackle its productivity problem. Until it does so, it risks falling into an ever deeper slumber. ■

Canada's war on doorknobs

Knobless oblige

OTTAWA

New building rules will help old folks—who now risk being eaten by bears

IT IS rare for changes to a municipal building code to become headline news. But Vancouver's ban on doorknobs in all new buildings, which went into effect last month, is an exception. It has provoked a strong reaction from the door-opening public and set off a chain reaction across the country as other jurisdictions ponder whether to follow Vancouver's lead. The country is on tenterhooks.

The war on doorknobs is part of a broader campaign to make buildings more accessible to the elderly and disabled, many of whom find levered door-handles easier to operate than fiddly knobs. Vancouver's code adds private homes to rules already in place in most of Canada for large buildings, stipulating wider entry doors, lower thresholds and lever-operated taps in bathrooms and kitchens.

The rules have provoked grumbling about the nanny state, much of it from doorknob manufacturers. The Canadian Home Builders' Association (CHBA) complains that Vancouver, the only city in Canada with the power to determine its own building code (elsewhere it falls to provincial governments), changed the rules on its own, instead of asking for a revision of the national regulations, which would have triggered more detailed cost studies.

These complaints pale in comparison to a more sinister worry. True, elderly and disabled people find it easier to operate doors with handles. But so do bears. In British Columbia, bears have been known to scavenge for food inside cars—whose doors have handles, knob advocates point out. Pitkin County, Colorado, in the United States, has banned door levers on buildings for this very reason. One newspaper columnist in the pro-knob camp has noted that the velociraptors in "Jurassic Park" were able to open doors by their handles.

Canadians are undeterred. Members of the municipal council in Halifax are considering asking their provincial government to follow Vancouver's example. So too are councillors in Pickering, east of Toronto. The provincial government in Manitoba is examining how the new rules will work in Vancouver. Philip Rizcallah, who manages the federal body responsible for the national code, says he would be open to considering the measure. So far no one has asked.

It seems only a matter of time before someone steps forward. Much publicity has been given to the ban, which plays to Vancouver's offbeat reputation. "What are they smoking out there?" asks Gary Sharp of the CHBA. If further bans do go ahead, those living near the woods would be wise to invest in some sturdy locks before installing doorhandles.

Business in Costa Rica

Intel outside

SAN JOSÉ

The chipmaker shuts a factory, slicing away one-fifth of the country's exports

KARLA BLANCO started working for Intel in 1997, when the microchip giant opened its factory in the Costa Rican rainforest. She was hired as a customs and trade expert and quickly climbed the professional ladder. After 17 years with the company, Ms Blanco is one of thousands of Costa Ricans whose lives have been changed by the microchip industry. She now speaks fluent English and Portuguese, holds a master's degree in international business and serves as Intel's corporate affairs director for Central America and the Caribbean.

The future looked bright, both for Ms Blanco and for Costa Rica. But on April 8th Intel announced plans to close its Costa Rican factory and move its operations to Malaysia, Vietnam and China. By the end of the year 1,500 jobs will have been lost. Ms Blanco has been dealing with a torrent of bewildered workers and media inquiries. "It's been really painful," she says.

The pain will be felt across the economy. Intel's operations in Costa Rica are worth around $2 billion a year, making up about 20% of the country's exports. The firm accounted for 11% of net foreign direct investment in 2000-12. Intel says it will hire another 200 staff to work in its engineering and global-services units in the country, which currently employ around 1,200 people. Nonetheless Henry Mora, a congressman and economic adviser to the incoming government, estimates that the closure of the microchip factory will cause a drop in Costa Rica's GDP of 0.3-0.4% over the next year.

Intel's arrival helped Costa Rica to develop a lively high-tech cluster which includes companies such as Infosys and Hewlett Packard (which last year announced that it was moving some of its Costa Rican jobs to India). The worry is that just as Intel's arrival triggered an influx of smaller firms, its departure could cause them to leave. Nor is technology the only industry feeling the squeeze. Hours after Intel announced its departure, Bank of America said it would close its Costa Rican operations as part of a global restructuring programme, laying off 1,400 workers.

It is a grim start for the new government of Luis Guillermo Solís, who will be sworn in as president on May 8th. Mr Solís has promised an international campaign to promote Costa Rica as an investment destination, highlighting its political stability and experience at combining foreign investment with local development that has a low environmental impact. PR campaigns aside, he might address the expensive electricity and ropy infrastructure that many investors complain about.

Asked if she will be able to continue working for Intel, Ms Blanco says that some senior executives have told her she will. "I hope so. But I still don't know what will I do, or how," she says. The thousands left jobless will expect the new president to come up with some answers, and fast. ■

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India's political heartland

Riding the wave

VARANASI

Halfway through the campaign, the BJP and Narendra Modi look strong

VARANASI, a city of 1.5m by the Ganges river some 800km (500 miles) south-east of Delhi, offers much for gawping visitors. A dusk boat ride is accompanied by near naked sadhus splashing in the sacred, filthy water. Funeral pyres crackle on the riverbank. Under a fat moon, scholars of Sanskrit put on a show with bells and oil lamps, a celebration of the river considered most holy by Hindus.

The city is about to be crammed with even more visitors, as it becomes the main spectacle of India's mammoth general election. Narendra Modi, the leader of the Bharatiya Janata Party (BJP), is running to be Varanasi's MP. That has drawn prominent opponents, notably Arvind Kejriwal, the media-hungry leader of an upstart anti-corruption outfit known as the Aam Aadmi, or Common Man, Party. Even Priyanka Gandhi, of the Nehru-Gandhi dynasty that dominates the ruling Congress party, has had to deny that she too planned to join the fray (the constituency of Amethi, the Gandhi family's seat of power, is not far away).

Halfway through the extended nine-stage election, the BJP has most momentum. Its supporters expect the contest in Varanasi to be Mr Modi's coronation. Ballots have so far been cast in 25 states, including Delhi, Kerala, parts of Uttar Pradesh (UP), where Varanasi is located, and much of the north-east. High turnout, about 70%, is probably a sign of voters eager to boot out the incumbent, Congress. Opinion polls also cheer the opposition. One this week suggested the BJP and its closest allies—the National Democratic Alliance—could get an outright majority, over 272 of parliament's 543 seats. That would be historic, letting Mr Modi rule without needing wider coalition partners.

Take the strongest predictions with a pinch of salt. Congress at times outperforms such surveys because its core supporters—the poor, the rural and Muslims—are likelier than richer ones to queue in the blazing sun and actually vote. Still, the ruling party's fortunes are certainly down. Its latest embarrassment is a book on the "accidental" prime minister of ten years, Manmohan Singh, by his ex-spokesman. It spells out how Sonia Gandhi, Congress's president, kept real political power, leaving Mr Singh unable to appoint or sack ministers or implement policy. No wonder voters crave stronger leadership.

Varanasi will probably bring more cheer to Mr Modi (by the odd rules of Indian democracy he is also standing in his home state of Gujarat). One prominent BJP figure in the city crows that "we've already won, we're fighting for the margin of victory". A local leader of the Rashtriya Swayamsevak Sangh (RSS) says his followers, enthused by Mr Modi, are campaigning too: the Hindu-nationalist outfit that long pretended it was just a social movement is now openly political.

Anything less than a landslide in Varanasi would thus be a poor result. The BJP won in 2009, the last election, and triumphs in local polls. Rival candidates, who have strong pull with local caste groups, respond mostly with bravado. Ajai Rai, Congress's man, says he has a better development record than Mr Modi, telling the "divisive" chief minister of Gujarat that he is unwelcome in a city known for good Hindu-Muslim relations. But unless he, Mr Kejriwal and several others somehow unite against the BJP man, the only real question is who claims second place.

More uncertain is how the BJP fares beyond the city limits. Eastern UP, heavily populated by poor, caste-obsessed farmers, is a region where local parties dominate. Mr Modi's presence in Varanasi, and his rallies of hundreds of thousands, could perhaps help to win a few more seats nearby, necessary if the BJP is to fulfil the more excitable poll predictions. Mr Modi's party needs around half the 80 seats in the state (plus 20 from nearby Bihar), a big leap from its previous haul of ten.

The problem for the BJP is converting excitement for Mr Modi as a prime minister to votes for a local candidate. Instead one of two big local parties is likely to do better in rural areas. The Bahujan Samaj Party has a strong core of supporters among the *dalits* (formerly known as "untouchables") who look loyal to their leader, Mayawati. The other one, the Samajwadi Party, runs the state of UP and draws on the sizeable Muslim vote and others. The two dominate the state, municipal and village administrations so have advantages of patronage and strong organisation.

Mr Modi's response is to rely on a troubling figure, an acolyte and former minister from Gujarat, Amit Shah. A friend from early days in the RSS, he faces murder charges over a case in Gujarat. He has just been banned from public campaigning by the Election Commission for telling Hindus in Muzaffarnagar, in western UP, before poll- ▸▸

Pakistan's Islamists

Returning with a vengeance

ISLAMABAD

Seven years after the Red Mosque affair, a renowned extremist re-emerges

IN THE summer of 2007, things were not looking good for Maulana Abdul Aziz, an extremist cleric who had just failed in his attempt to impose strict *sharia* law on Pakistan's capital by force.

His Red Mosque and *madrassa* complex, a stone's throw from government buildings in Islamabad, was stormed by security forces on the orders of then-president, Pervez Musharraf. Dozens of people died during the siege. Mr Aziz was caught trying to escape dressed in a burqa.

Seven years later it is Mr Musharraf who is on trial for high treason while Mr Aziz is a free man, basking in media attention and busily rebuilding his religious powerbase. "We receive donations from people all over the world", he says, gazing out at a group of workmen building another marble edifice that will house more seminary students and teachers. "They are inspired by the sacrifice of the martyrs who died protecting the mosque."

He has his freedom thanks to the government's tolerance of radical Islamists in national affairs. In February Mr Aziz was among five people nominated by the Pakistani Taliban to represent its interests in peace talks with the government. Although he soon dropped out of the process, the question of how much the country should adjust its constitution to suit its militant tormentors became a routine topic on talk shows.

Mr Aziz says he is not part of the "armed struggle", but he argues that violence is justified in order to establish God's laws. He is revered by terrorists for whom the Red Mosque affair was a defining moment. One militant group—Ghazi Force—is named after Mr Aziz's brother, Maulana Abdul Rashid Ghazi, who was killed during the siege.

Some suspect the group may have been behind the suicide attack in Islamabad on March 3rd. Among the 11 dead was a liberal-minded judge who outraged extremists last year when he rejected a petition for Mr Musharraf to be tried for ordering the raid on the Red Mosque in 2007.

Zahid Hussain, a commentator, says the government of Prime Minister Nawaz Sharif has lost its appetite for controlling illegal *madrassa* construction in Islamabad. He says there are now thousands of *madrassa* students in the city. No wonder Mr Aziz feels the tide of history is flowing in his direction. In 2007, we were on the defensive, he says. "Now things have turned 180 degrees and it is the secular forces who are hiding."

Same mosque, same concerns

ing last week, to use their votes to take "revenge". That sounded inflammatory coming after Hindu-Muslim riots last September that killed over 40 people.

The BJP has a threefold strategy. To stir up Hindu feeling where Muslims are more numerous and voters identify by religion. Elsewhere, as in the east of the state, hardline Hindu rhetoric is bringing weaker returns, for example as interest in the rebuilding of the Ram temple at Ayodhya wanes. Instead the BJP targets groups among the Hindus, reaching beyond traditional high castes (Brahmin, Rajput and others) to win the backing of the "Other Backward Class" category. That Mr Modi is himself an OBC "is a huge factor" says a party strategist in Varanasi.

Finally, by talking up the development successes of Gujarat, promising better roads, electricity and new jobs, the BJP hopes to win over younger, more literate and job-hungry voters. Opponents grumble that Mr Modi's promises are being oversold, a cult of personality is rising, even that portions of the press have been bought. "He is more detergent powder than a political man," sniffs an elderly journalist in Varanasi. But even the disapproving admit Mr Modi is a strong campaigner. His face is on billboards all over Varanasi—one more thing for visitors to gawp at. ■

Japan reboots

Back on track?

TOKYO

Japan's prime minister tries to reset the direction of his government

"I HOPE Ambassador Kennedy will enjoy the full package of Japan," gushed Shinzo Abe on April 12th as he took America's ambassador, Caroline Kennedy, on a test ride on Japan's new magnetic-levitation train past Mount Fuji and the cherry blossoms of spring. For Mr Abe, who is lobbying for America to use Japanese technology to construct maglev systems on its east coast, it was also a chance to show off the full package of the American alliance before Barack Obama's visit to Tokyo from April 23rd to 25th (see Banyan, page 38).

After a difficult few months, Mr Abe seems to recognise the need to reassure Japan's main ally about his government's intentions. His visit last year to the Yasukuni shrine in Tokyo, where high-ranking war criminals are honoured, drew protests from the country's neighbours, especially China. The United States declared itself "disappointed" with Mr Abe.

Soon afterwards, a series of revisionist statements on Japan's wartime atrocities from right-wing officials appointed by Mr Abe to the public broadcaster, NHK, brought further condemnation. And his commitment to push through structural reforms, central to his economic revival plan, announced in 2013, seemed to waver.

So the prime minister's pledge to Japan's parliament on March 14th that his government would not revise an official apology made in 1993 to "comfort women"—wartime sex-slaves—came as a relief to many in Washington. His personal charm offensive seems to be working. For Ms Kennedy, the maglev ride was "a great moment to be with Mr Abe". Gerald Curtis of Columbia University says there are signs Mr Abe now understands that he must stop the damaging revisionist statements by close associates.

Mr Abe has also revived his emphasis on the economy. One spur to his supply-side economic reforms has been Japan's inclusion in the Trans-Pacific Partnership (TPP) regional trade talks. On April 17th, at an *Economist* conference, he was expected to underline his plan rapidly to reach agreement with America on reducing tariffs. Recently, Japan's negotiators had seemed to backslide on lifting protections for agriculture and autos.

Bolder still, on April 4th Mr Abe declared that his government would move to allow business to make more use of what he called "foreign human resources". Japan's political establishment has never ▸▸

Was that our alliance flashing past?

embraced the idea of large-scale immigration, so Mr Abe's move is particularly striking. On April 17th he was expected to add that the Japanese must also show tolerance for outsiders entering the country to work. Few developments would better demonstrate Mr Abe's will to implement difficult reforms. A further round of growth measures is due in the summer.

As for pressure to rein in the far-right, that comes not just from America and Japan's neighbours, but also from within Mr Abe's Liberal Democratic Party (LDP). The shift could therefore be lasting. The LDP's senior foreign-policy moderates are furious that Mr Abe has acted to please his right-wing supporters at the expense of Japan's diplomatic standing. A substantial slice of the party is resisting one of his most cherished aims on national security, which is to change the interpretation of Japan's post-war constitution to allow the country's armed forces to take part in "collective self-defence", whereby they could come to the aid of an ally if attacked. It is a change that America solidly backs. Yet Mr Abe has reportedly had to water down his proposal for now, so that armed forces may operate only in Japan's immediate vicinity.

Much will also depend on an expected cabinet reshuffle later in the year, which would be Mr Abe's first since returning to power in December 2012. The LDP rank and file's resentment of the concentration of power in the cabinet is growing deeper. A coalition of right-wingers and anti-reformers would like to see the departure of Yoshihide Suga, the powerful and relatively moderate chief cabinet secretary. That, however, is unlikely, and if Yasuhisa Shiozaki, a former chief cabinet secretary to Mr Abe from his first term as prime minister in 2006-07, joins the cabinet, it could become more reformist economically.

Set against such hopes, however, is the Yasukuni shrine's annual spring festival, which, as bad luck would have it, runs in the days just before Mr Obama's visit. This week it was the turn of Yoshitaka Shindo, the minister of internal affairs and communications, to turn up. Next week a flow of parliamentarians is likely to follow him, though hopefully not the symbolically important, high-ranking cabinet members. For the time being, Mr Abe's shift looks set to make a difference. ■

Cambodian politics

Time to deal

SINGAPORE

Government and opposition inch towards an agreement

MORE than eight months have passed since a general election paralysed Cambodian politics. On paper, at least, the result of the poll last July was a narrow win for the long-serving prime minister and strongman Hun Sen, leader of the Cambodian People's Party (CPP). The opposition, however, led by Sam Rainsy, cried foul, accusing the government of systematic ballot-rigging. Mr Sam Rainsy's Cambodia National Rescue Party (CNRP) refused to take up its seats in parliament until the election was either rerun, or an independent inquiry backed by the United Nations investigated. Mr Hun Sen rejected both options, leaving a tense political stand-off.

At last, the deadlock may be breaking. Hopes that the two sides might reach agreement on April 11th, before the country shut down for its lunar new year celebrations, were dashed. But a deal may yet be reached by the end of the month, with the opposition taking up its seats in parliament soon afterwards.

Both sides face pressure to come to terms. Mr Hun Sen has been widely criticised for his inflexibility. He cheerily shrugs off such censure from his many Western detractors. But this time China, his main source of international economic and political support, has joined in.

Many in the CNRP are eager to strike a deal, too. Their chief negotiator with the government, Son Chhay, a member of parliament, says the opposition is now strong enough "to change the system from within" by returning to parliament. The CNRP won 55 out of the 123 parliamentary seats at the election. He does not want to repeat the "experience of Burma". In Myanmar, the opposition party led by Aung San Suu Kyi won a landslide victory in an election in 1990, but the result was not honoured and a damaging two-decade-long stand-off ensued. Moreover, the CNRP's donors among the Cambodian diaspora in America, Australia and elsewhere, are tired of its intransigence (and increasing demands for more money). Opposition protests in Phnom Penh have been dwindling recently. Anger at the disruption they cause has been mounting.

So Mr Son Chhay says that the two sides have worked out a draft five-point agreement. In return for ending its boycott of parliament the opposition has won some big concessions. Most important is the reform of the National Election Committee, to give more hope of fairer elections. The committee's members would be chosen by all parliamentary parties, rather than appointed by the government, as now. Its independence would be enshrined in the constitution. Joint committees would reform other national institutions beholden to the CPP, such as the state broadcaster. And the opposition would chair five of the ten legislative committees in the national assembly.

A big stumbling block, however, is the date of the next election, or "re-election" as the opposition calls it. It is due in the summer of 2018, but the CNRP, sensing a big win if the reforms in the agreement are implemented, wants to bring it forward, to early 2016. The government, obviously reluctant, has so far conceded only to a rescheduling to February 2018. This squabble, over election dates, was the main reason no agreement was signed on April 11th. But Mr Son Chhay is optimistic. He hopes that talks will resume after the new year festivities. ■

Bangladesh

The game of the river

DHAKA AND ENAYETPUR

At last, Bangladesh starts to tame the mighty Brahmaputra

A MAN-MADE spur juts into the mighty Jamuna river—known as the Brahmaputra upstream, over the border in India—near the town of Enayetpur. The solid wall was built, expensively, to control the massive flow of the river. But erosion now eats deep into its foundations and the river is reclaiming the land once again. Last year people lived beside it in makeshift shacks; now where their homes once stood there is only water.

The great river draws from a huge, heavily populated basin, home to hundreds of millions of people. Over the centuries they have learned to live with the shifting course of the river, and with its immense flow. At its peak, some 100,000 cubic metres of water rush by every second, enough to fill 144,000 Olympic-sized swimming pools per hour. But that flow can be terribly destructive, alternately depositing huge quantities of sediment—hundreds of millions of tonnes a year—then devouring the land elsewhere.

This year the river will swallow another 1,300 hectares (3,200 acres) of land, predicts Maminul Haque Sarker of the Centre for Environmental and Geographic Information Services (CEGIS) in Dhaka, Bangladesh's capital. Scientists say that 64,000 people in Bangladesh are displaced each year by the erosion of riverbanks. Many pushed from their homes by the river end up in slums in the capital. "The landlord in the morning can become a beggar by evening," goes a traditional song. "This is the game of the river."

The cost of restraining its flow with stone spurs and other constructions used to be prohibitive as well as ineffective: it cost about $20m to protect a kilometre of embankment, using stones trucked in from India and paid for in hard currency. Now a relatively simple solution is being tried to protect millions who live near the river. Some 25km (16 miles) downstream from the spur is Nakalia Bazaar, which offers a strikingly different scene to Enayetpur. A big riverside market contains permanent structures. From huts atop a protected embankment comes the clicking sound of fly-shuttles worked through handlooms. The economic activity is a sign that, locally, the game of the river has changed and its power has been reduced.

Here the riverbank is protected by low-tech means: heavy sandbags. Filling and installing them is labour intensive, but workers are abundant and cheap. Sand is also plentiful. Thus overall costs are low: some $2m per kilometre. Since around 1,000km of banks along the river probably need protection, the difference in cost is immense.

Some environmentalists suggest it may be better, at least beyond towns, to let the river go where it wants than attempt to wrestle with such a powerful monster. But armies of donors, consultants and development experts have been determined to fight, for the sake of those who survive on the river's edge.

Prospects for the sandbag campaign are looking up. The government at least has started to share information with local people, warning about imminent threats of erosion. Along the river, a red flag placed in the ground means there is a high risk of erosion, a yellow flag warns people that they still have time but to be prepared. Now the Asian Development Bank (ADB) and the World Bank have promised $1.5 billion to stabilise 150km of embankments along the Jamuna and the Padma rivers.

The simple bagging technique used in Bangladesh could next be adopted across the border in India, which has plenty of fertile land to protect in its eastern provinces. In nearby Assam state, the chief minister, Tarun Gogoi, has suggested India is ten years behind Bangladesh in "training" its part of the river and that his country has much to learn.

Rivers narrow and widen, depending on the flow of sediment, and even as a result of earthquakes that can dramatically shift their course. Experts say the effects of one earthquake in Assam in 1950 were still being felt four decades later. Today much of the river in Bangladesh is 12km wide, but Mr Sarker, the scientist from CEGIS, says with sediment flow declining, the river could narrow again to just 6km. Nothing will be permanent, but more stability may yet beckon for the people whose lives have for years been defined by the river. ■

South Korean ferry sinks

On the morning of April 16th a South Korean passenger ferry, the Sewol, capsized and sank on its way from Incheon port to Jeju island, a popular resort. It was carrying 459 people, more than half of whom were students from a high school near Seoul. As *The Economist* went to press, only three deaths were confirmed, but nearly 300 were still missing. The government immediately deployed 30 ships and a dozen helicopters in a mass rescue operation, but the 6,825-tonne ferry sank surprisingly fast. Within a few hours, only a portion of its bow was visible. Chonghaejin Marine, the company which owns and operates the ferry, says it passed a routine survey two months ago. It can carry 900 people and over 100 vehicles, suggesting overloading was not the problem, as it was in South Korea's last fatal ferry accident in 1993, when 292 people died.

Banyan | A tricky rebalancing act

Barack Obama is bound to disappoint on his forthcoming trip to Asia

A STRATEGIC "pivot" or "rebalancing" towards Asia and the Pacific is central to American foreign policy under Barack Obama. So it is more than embarrassing that the president has had to cancel trips to the region at short notice—most recently last October, when the partial shutdown of his administration forced him to pull out of two regional summits. This gives added significance to his tour of Japan, South Korea, Malaysia and the Philippines from April 22nd. It is the chance to reassert America's military and economic commitment to three treaty allies, one prospective "strategic partner" (Malaysia) and to the region as a whole, as it struggles with the implications of China's rapid rise.

That reassurance is needed all the more after America's failure to intervene in Syria and, especially, its failure to contain Russian expansionism in Ukraine. Both episodes feed into a perception of a declining American appetite for keeping the peace, and of a declining ability to do so. Countries such as Japan and the Philippines, facing an assertive Chinese approach to disputed territory, are naturally concerned. If America will do so little for Ukraine, will it risk lives and treasure for uninhabited rocks in the East or South China Sea? In theory, circumstances are so different that America's Asian allies should have no cause for concern. Unlike the Syrian opposition and Ukraine, the Japanese and Filipinos have mutual security treaties with America.

Indeed, if America did involve itself militarily in another conflict in the Middle East or in eastern Europe, its Asian allies would fret that the "rebalancing" was deemed, as they had feared, a lower American priority than other parts of the world. It is a battle for regional reassurance that America, it seems, simply cannot win.

Other problems complicate things further. One is the poor state of relations between America's two most important allies, Japan and South Korea. Shinzo Abe, Japan's prime minister, seems as unpopular in Seoul as he is in Beijing. His decision last December to visit the Yasukuni shrine in Tokyo, where war criminals are honoured, confirmed South Koreans in their view of him as an unrepentant historical revisionist, in denial about the atrocities Japan inflicted on their country during its colonisation. So, rather than co-operating with Japan in dealing with an immediate threat from North Korea and a potential longer-term one from China, South Korea prefers to make common cause with China to condemn Japan for its failure to confront the past. It took a big effort to persuade Park Geun-hye, South Korea's president, to join a trilateral meeting with Mr Obama and Mr Abe at a nuclear summit in the Netherlands last month. Coaxing them to work together when he is not in the room will be even harder.

Another difficulty lies in distinguishing strategic support for a country from political support for its current rulers. America finds much to admire in Mr Abe: his determination to drag the Japanese economy out of its deflationary morass; in particular, his promise to take on domestic lobbies by joining American-led regional trade talks, the 12-country Trans-Pacific Partnership (TPP); his desire to see Japan play a bigger role in its own defence. But it also deplores the often revisionist attitude to Japan's history that, for Mr Abe and his supporters, animates these policies.

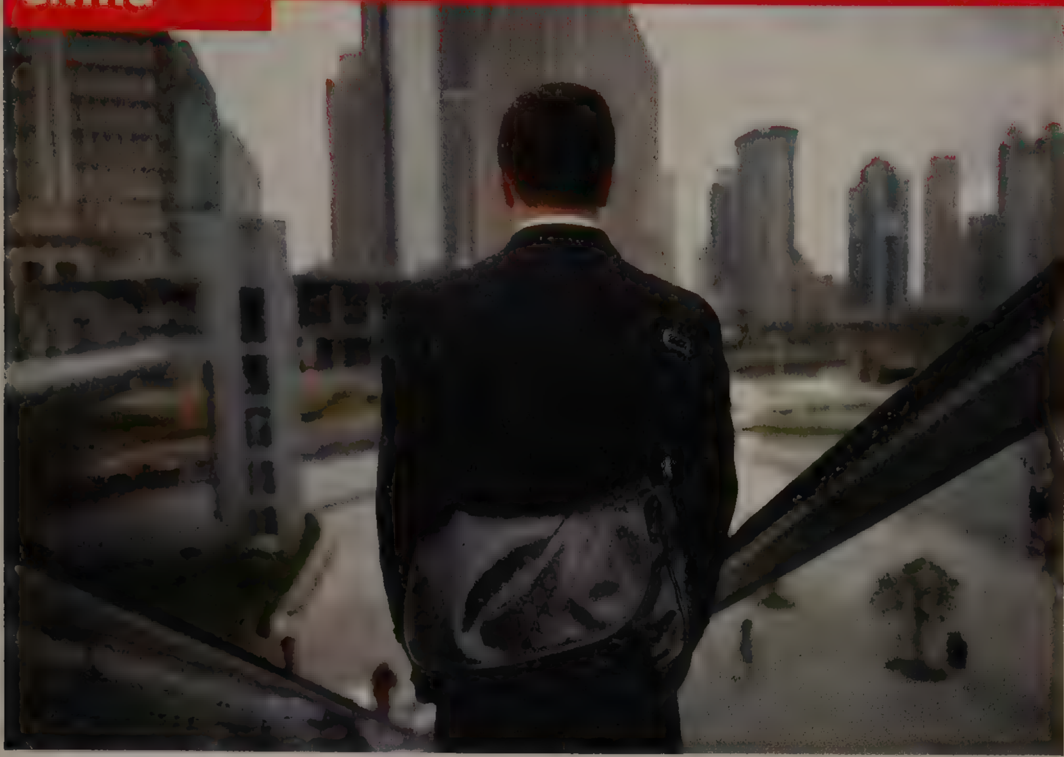
Similarly it finds Malaysia a model of moderate Islamic democracy and its prime minister, Najib Razak, the friendliest leader it has had in decades. But Malaysian politics is poisonous. Anwar Ibrahim, the leader of the opposition, which won the popular vote at last year's election, is appealing against a sentence handed down last month of five years in jail for sodomy. Many Malaysians believe the prosecution is politically motivated.

Mr Najib has taken Malaysia, too, into the TPP. Another problem facing the "rebalance" is that this, its most important economic dimension, is in trouble. The impetus of Mr Obama's tour itself may generate a breakthrough in the shape of agreement between the TPP's two biggest economies, America and Japan. But ratification of the TPP will face domestic political obstacles in a number of countries, not least America itself. Many in Asia have noticed that Mr Obama seems loth to spend much domestic political capital on this or other aspects of American commitment to the region. Mr Obama may have trouble convincing his friends in Asia that America's rebalance is genuine.

China, for its part, is keen to cast doubt on America's regional staying power. Yet, oddly, its own government seems convinced by it. It sees the rebalance as an attempt to encircle China and counter its rise. Some of this resentment emerged in testy exchanges when Chuck Hagel, America's defence secretary, was in Beijing this month. China blames America for encouraging Japan and the Philippines to confront it over disputed rocks. Its leaders worry that America's decision to deploy two more Aegis-class destroyers to Japan to counter the threat from North Korea is in fact directed against China. It has noticed that America supports the Philippines in its legal challenge to China's claim to most of the South China Sea, and has just signed an agreement with it allowing more of its troops into the country. And Congress is likely to authorise the sale of four pensioned-off frigates to Taiwan.

Be careful what you wish for

China's reaction is perhaps the most fundamental of all the factors making the rebalance so tricky. America insists it is not trying to contain China or thwart its rise. But if that is so, how to convince Asian allies of an unshakable military commitment to the defence of islands, reefs and rocks of no obvious relevance to American security? And if America is in fact trying to stand in the way of China's rise, then its Asian allies would also take fright at a dangerous confrontation between the region's two big maritime powers. The rebalance, meant to reassure them without alarming China, risks the opposite: alienating China and scotching promising areas of co-operation, yet leaving its neighbours, America's friends, more nervous than ever. ■



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Disillusioned office workers

China's losers

SHANGHAI

Amid spreading prosperity, a generation of self-styled also-rans emerges

ZHU GUANG, a 25-year-old product tester, projects casual cool in his red Adidas jacket and canvas shoes. He sports the shadowy wisps of a moustache and goatee, as if he has the ambition to grow a beard but not the ability. On paper he is one of the millions of up-and-coming winners of the Chinese economy: a university graduate, the only child of factory workers in Shanghai, working for Lenovo, one of China's leading computer-makers.

But Mr Zhu considers himself a loser, not a winner. He earns 4,000 yuan ($650) a month after tax and says he feels like a faceless drone at work. He eats at the office canteen and goes home at night to a rented, 20-square-metre (215-square-foot) room in a shared flat, where he plays online games. He does not have a girlfriend or any prospect of finding one. "Lack of confidence", he explains when asked why not. Like millions of others, he mockingly calls himself, in evocative modern street slang, a *diaosi*, the term for a loser that literally translates as "male pubic hair". Figuratively it is a declaration of powerlessness in an economy where it is getting harder for the regular guy to succeed. Calling himself by this derisive nickname is a way of crying out, "like Gandhi", says Mr Zhu, only partly in jest. "It is a quiet form of protest."

Calling yourself a *diaosi* has also become a proud statement of solidarity with the masses against the perceived corruption of the wealthy. The word itself entered the language only recently, appealing to office grunts across the country, especially in the IT industry. A mostly male species, *diaosi* are often daydreamers with poor social skills and an obsession with online gaming. They are slightly different from Japan's marriage-shunning "herbivore" young men in that fewer of them have chosen their station in life. Society has chosen it for them, especially with property prices climbing well beyond their reach. Several recent studies show that, while incomes across Chinese society continue to rise, social mobility has worsened. Yi Chen of Nanjing Audit University and Frank A. Cowell of the London School of Economics found that, since 2000, people at the bottom of society were more likely than in the 1990s to stay where they were. "China has become more rigid," they conclude.

An online video sketch show, "*Diaosi* Man", shown on Sohu.com, an internet portal, mercilessly mocks the tribe. Since its debut in 2012, the show's episodes have been streamed more than 1.5 billion times. In one recent episode a man tries to impress his beautiful dinner date with how busy he is at his job. He then receives a phone call from work, apologetically takes his leave to go to the office and finally pops up again as a waiter when his date asks for the bill. In the same episode a frustrated new driver curses repeatedly at a Lamborghini in the next lane and screams, "Are you bullying me because I don't know any traffic cops?" In the next scene he is in a neck brace and his nose is broken.

Mr Zhu says what makes him a *diaosi* is that he is the son of factory workers. He is not *fu er dai*—second-generation rich—or *guan er dai*—the son of powerful government officials (it does not escape a *diaosi*'s notice that those two categories often overlap). He and his *diaosi* colleagues feel that, with connections or cash, they might have attended a better university and found a better job.

With after-tax income of nearly $8,000 a year, Mr Zhu would look to many people in China comfortably on his way to the middle class. He is among the lower wage-earners at Zhangjiang Hi-Tech Park in Shanghai, but even many higher earners call themselves *diaosi*, or refer to themselves as "IT labourers". Though their salaries are above average even in Shanghai—which had China's third-highest annual urban disposable income per person in 2012 at 40,000 yuan—the cost of appearing successful is stratospheric. A fancy flat and a cool car are well beyond their reach. They are wage slaves who cannot hope to be *gao fu shuai*—tall, rich and handsome—and marry a woman who is *bai fu mei*—fair-skinned, rich and beautiful.

This might seem quite normal for a rapidly developing economy. But Zhang Yi, a sociologist at the Chinese Academy of Social Sciences, a government think-tank in Beijing, says this *diaosi* feeling of relative deprivation is a troubling consequence of China's growing wealth gap. In an interview devoted to the subject for the website of Phoenix Television, a Hong Kong satellite network, Mr Zhang concluded that people at the bottom feel utterly alienated. They feel less hopeful than they did before of ever moving up in life, he said.

In spite of this, however, they do still represent a marketing opportunity. There ▸▸

are, after all, many more of them than there are millionaires, even though it can be difficult to define the target market. At Dianping, a website offering restaurant reviews and consumer deals, Schubert You targets very low-wage workers in smaller cities (earning about $150 to $450 a month) with coupons and group discounts. Mr You does not consider the IT workers of Shanghai and Beijing to be true *diaosi*.

But surveys show they believe they are. Last year Analysys International, a research company in Beijing, asked a broad cross-section of office workers if they saw themselves as *diaosi*. More than 90% of programmers and journalists and about 80% of food and service industry and marketing workers said they did. Those surveyed who least identified with being losers were civil servants, working for the government or the Communist Party. ■

Media

Scooped

BEIJING

Crowd-funding is improving journalism

LIU JIANFENG began his career as an investigative reporter with noble ideals about serving the public interest. After 20 years in the job, even working for some of China's more outspoken publications, he felt increasingly manipulated. He also believed the public was hungry for fact-based reporting untainted by the state's agenda. Casting around for a solution, last summer he announced on his microblog that he was becoming an independent journalist.

Five years ago such a move would have been all but impossible. But now, trading on his reputation as an honest reporter, through his microblog on Sina Weibo, China's Twitter, and on Taobao, an e-commerce site, Mr Liu raised 200,000 yuan ($30,000). That helped him produce his first long investigative report about a land dispute between villagers and their local government in Shandong, an eastern province. The report, which is available on Mr Liu's blog, has not (yet) caused him problems. "Writing at length and in detail is a way to protect myself from accusations of malpractice," he says.

Since its foundation in 1921, the Communist Party has insisted that the media is its "throat and tongue". Though media are freer than ever to report on non-political issues and more reporters are trying to break new ground even within state-run outlets, China's media must still bow to the party's propaganda department.

But new media are undercutting traditional models. For profit-driven titles this means accepting a fall in advertising revenue. For the party the battle is all about control. As microblogs and other media report news that challenges the party line, official channels appear untruthful, corrupt or both.

A bungled exposé of the sex trade in the southern city of Dongguan by China Central Television (CCTV), the state broadcaster, has caused particular offence. On February 9th CCTV released its report, which included undercover footage of alleged prostitutes in slinky dresses lined up in a brothel for selection. Such scoops are often a mix of a new type of semi-investigative journalism serving a broader party agenda. But the report failed to shock as the city's reputation was already notorious. Then, as the government unveiled a crackdown on the sex industry, the report seemed a little too timely. Rather than the intended moral outcry, online commentators ridiculed the network for colluding with the state. "People who sell their souls have always looked down on people who sell their bodies," read one widely retweeted post.

Even though state-run media are not as bland as they once were, principled journalists still struggle to find a home for their work. Since the arrival of the internet the government has engaged in a cat-and-mouse game with emerging media, allowing some new platforms to flourish yet standing ready to pounce on those that become too popular.

Since a crackdown on microblogs last year, many users have gravitated to WeChat, a smartphone-messaging application. It has emerged as a relatively unconstrained platform for free-thinking opinion. But in mid-March there was a sudden shutdown of dozens of prominent accounts. The "WeChat massacre", as it became known, was a fresh warning to free-thinkers, though it has not yet scared users away.

Like other journalists, Song Zhibiao uses his WeChat feed to create what he calls "self-made media". He posts news and commentary on controversial subjects, such as the mismanagement of official coverage of the missing Malaysia Airlines flight MH370. Around 13,000 people subscribe to his WeChat feed; some donate up to 500 yuan. Despite some financial success, Mr Song sees two hurdles. Relying on donations from a public used to consuming free media is not sustainable, he thinks. And muckraking in China can be risky. If you are on your way "to seek truth", he says, you may in the party's eyes be on the road to commit crimes.

Since Xi Jinping became party chief in 2012 the media have been even more tightly controlled. New legislation means that web users can be imprisoned for three years if a sensitive tweet proves too popular. Mr Xi himself heads a new internet security group, expected to deal further blows to freedom of expression online. Ren Xianliang, vice-minister of the State Internet Information Office, calls control of the media, like the party's handle on the military, an unassailable principle for upholding leadership. It is age-old party rhetoric, given a modern touch. Mr Ren suggests fostering a group of "thought leaders" to "occupy" new media.

This suggestion exposes an inherent weakness in all such government strategy. Occupation of anything on the internet is difficult, so technology provides a platform for resistance, albeit a fragile one. For journalists aiming for integrity, the intersection of technology and the market presents new ways to survive. When he resigned from his job at a newspaper, Mr Liu envisaged creating a platform akin to ProPublica, an American non-profit outlet that produces investigative journalism in the public interest. For China, it is a venture that still seems far off. But Mr Liu knows of others who harbour similar ambitions. ■

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Algeria's election

The old man won't go away

CAIRO

An ageing president looks set to hang on grimly, however feeble his health

NOT surprisingly for a country that lost a million people in its struggle for independence in 1954-1962 and perhaps another 200,000 in its later civil war at the end of the century, humour in Algeria tends to be darkly cynical. And not surprisingly the presidential election set for April 17th has prompted plenty of bitter laughs. The almost certain winner, Abdelaziz Bouteflika, has been president for the past 15 of his 77 years. Yet apart from brief, inaudible television clips of official gatherings, he has scarcely been heard from in nearly two years. He did not even attend his campaign's concluding rally near Algiers, the capital. Bused-in supporters were treated instead to a speech he recorded in 1999.

"Technology in Algeria is so advanced that even our president is virtual," explained a bemused commentator on Facebook. Such comments should not be dismissed as facile. Many Algerians regard Mr Bouteflika with a grudging fondness; after all, he has been in politics since serving as foreign minister in the 1960s, and he did help bring the ghastly bloodshed of the 1990s to an end. But they remain wary of the shadow-play that is Algerian politics.

This election campaign, for instance, has carried a veneer of democratic practice, with six varied candidates bidding for the top prize. But the oil-rich Algerian state, with its legacy of one-party rule and legions of officials all carefully vetted for loyalty by an omnipresent secret police, tilts the outcome heavily towards the candidate anointed by "Le Pouvoir", as Algerians call the circle of senior generals and security chiefs who actually run the country. Small wonder that Mr Bouteflika won his last two elections, in 2004 and 2009, with 85% and 90% of the vote, amid meagre turnouts and a strong whiff of fraud.

The question in many minds is why Algeria's hidden puppet-masters should again have backed Mr Bouteflika, despite the fact that he had a bad stroke a year ago and may be unable to complete another five-year term. The widely whispered answer is that divisions within Le Pouvoir make it hard to agree on an alternative: someone who could present a façade of democratic legitimacy and benign governance, while quietly letting the country's ensconced nomenclatura manage its fiefs.

In recent months some of these divisions have come into unusual public relief. A reshuffle of military posts last year, followed in January by a burst of criticism from Mr Bouteflika's stalwarts directed at the man long seen as the kingmaker, General Muhammad "Toufiq" Mediène, head of the feared military intelligence service, exposed tensions. Open press criticism of the ailing president's bid for a fourth term, as well as of apparent top-level corruption, was rumoured to have been sanctioned by General Mediène. But these cracks appear now to have been largely papered over.

Despite the advantages Mr Bouteflika enjoys, Algeria still has a margin of freedom just broad enough to allow for some political jostling. His main challenger, Ali Benflis, a former prime minister, has loudly warned against electoral fraud. In one campaign speech he predicted "a violent earthquake that will shake the foundations of those who support a president for life." This prompted a heated riposte from Mr Bouteflika, who accused his opponent of "terrorism via television".

Most of Algeria's myriad small opposition parties, both Islamist and secular, urged supporters to boycott the vote. In any case, they carry little weight. Perhaps more challenging is the emergence of a new, non-affiliated pressure group that has denounced not just these elections, but the "entire masquerade" of Algeria's politics.

Launched only last month, Barakat, meaning "enough" in Algeria's Arabic dialect, is modelled on peaceful civil movements that helped topple such rulers as Egypt's Hosni Mubarak. Its internet presence and public rallies have yet to attract more than a few thousand, but its leaders say they are planning for the longer run. Le Pouvoir is worried: a newspaper that hosted a Barakat press conference was quickly punished by the withdrawal of all government advertising, a vital source of revenue in a country whose oil wealth and socialist policies have stunted private business.

Algeria is not a happy country. Periodic riots, ethnic clashes between Arabs and Berbers and the lingering danger of jihadist terrorism attest to festering social ills. For the time being, however, memories of still worse times make Algerians too timid, by and large, to mount a greater challenge to the powers-that-be. As Mr Bouteflika said in his sole campaign effort, a letter to his people published by the state news agency, "My current health challenges do not seem to disqualify me in your eyes." ■

Syria's civil war

The ebb and flow of horror

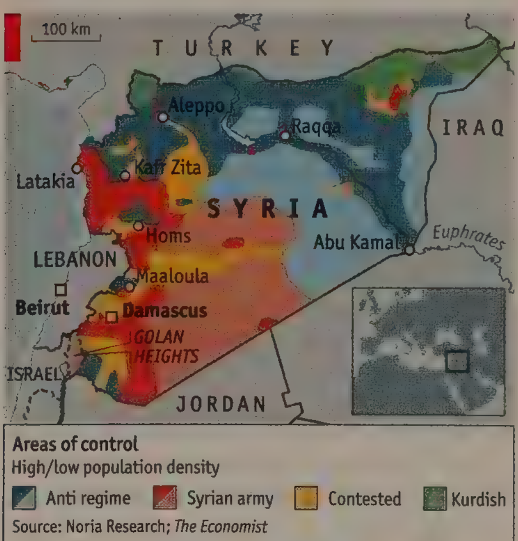
CAIRO

While each side makes minor gains and losses, overall a bloody stalemate persists

ACCORDING to President Bashar Assad, Syria's three-year-old fratricide may soon be over. Speaking at Damascus University on April 13th, he declared that his army's "war on terror" had reached a turning point. From now on, he implied, it would essentially be a mopping-up operation. His allies echo this rosy view. "The danger of the Syrian regime falling has ended," was the recent judgment of Hassan Nasrallah, the leader of Hizbullah, the Lebanese Shia party-cum-militia that has pitched an estimated 5,000 fighters into the battle on Mr Assad's behalf.

On the ground the picture is much more blurred. Rather than showing an irreversible tilt in favour of the regime's forces, the latest fighting seems to have consolidated territories held by each side. True, Mr Assad faces a less imminent threat to his strongholds, but he lacks the manpower to extend any of his gains very far. Syria remains in effect partitioned into zones held by the government and a patchwork of opponents. Short of far more potent intervention by outside forces, it is hard to see any early military resolution to the conflict.

Mr Assad's men have lately reinforced their control of the capital, Damascus, and made more secure its vital link to regime-held areas in the centre and west of the country. The capture on April 14th of Maaloula, a mainly Christian town north of Damascus held by rebels since December, further shrunk a remaining rebel-controlled pocket along the border with Lebanon. Rebel resistance in Syria's third-largest city, Homs, is now in danger of being terminally crushed, bringing to an end a bitter and bloody two-year siege that has devastated the town centre.



Yet, despite infighting between rebel groups, the regime's opponents have not only continued to harry the capital and other loyalist enclaves. They have also made their own territorial gains, in recent weeks seizing a coastal salient in the far north-west near Latakia, the Assad family's homeland, plus chunks of territory along the Israeli-occupied Golan Heights in the south-west.

The rebels have also encroached on the remaining government-held parts of Syria's second city, Aleppo. A rebel offensive there in recent days has for the first time cut the government's key supply line into the western part of the city. Thousands of government troops as well as tens of thousands of loyalist citizens could find themselves encircled.

Moreover, the mainstream rebel forces appear to have contained, or at least diminished, what had been a looming threat from the Islamic State of Iraq and Greater Syria (ISIS). Last year this extreme jihadist group, which is commanded by Iraqis and largely manned by foreign fighters, had rapidly expanded its influence in rebel-held areas. Its cruelty and pan-Islamist ideology prompted a Syrian nationalist backlash. Since open intra-rebel fighting erupted in January, ISIS has been pushed back to a rump territory in and around the central city of Raqqa. ISIS's efforts to break out, either into Kurdish-held regions of the north-east or towards the town of Abu Kamal on the border with Iraq, appear to have been repulsed. This is one reason why other rebels have been freer to reassert their pressure on government forces in Aleppo.

None of this is good news for ordinary Syrians longing for their nightmare to end. Scalded by the cost of achieving even small advances, Mr Assad's forces are making increasingly indiscriminate use of heavy weaponry. Rockets, artillery and giant, nail-packed barrel bombs lobbed from helicopters help to suppress rebel fire. They also make life in rebel-held areas a misery, generating floods of terrified civilians.

Some of Syria's rebels have followed the regime's example by torturing, kidnapping and executing their opponents. They have also launched indiscriminate attacks on government-held areas. On April 14th, for example, more than 30 mortars fired from rebel areas landed on the loyalist Damascus suburb of Jaramana, killing five people. And rebel car-bombings aimed at soldiers inevitably hit civilians as well. One that went off in Homs on April 9th killed at least 25 people, of every stripe.

Despite the UN's imposition last September of a programme to strip Mr Assad of his chemical weapons, two-thirds of which are now said to have been dismantled, there have been reports that government forces are using them again. The most recent documented event involved chlorine gas, which is technically not banned under international conventions. On April 11th-12th it was apparently fired at Kafr Zita, a rebel-held village 200km (125 miles) north of Damascus. Dozens of people reportedly suffered the symptoms of poisoning, causing widespread panic. The government accused the rebels of using the gas themselves to attract sympathy. This fails to explain how the state media were able to warn of imminent chlorine attacks on other nearby villages. ■

Libya's eastern city

If only the bombs would go away...

BENGHAZI

The country's eastern capital is a mishmash of hope and fear

"WELCOME to Benghazi, birthplace of the Libyan revolution," declares the sign on the runway of its ramshackle airport. Visitors may be forgiven for not taking the words at face value. Three years after the uprising that began in Libya's second city, the city is being pulled in several directions—not all of them backwards.

Grim aspects are plain to see, especially the city's lack of security. It often echoes to the sound of gunfire and explosions. Earlier this month a hairdresser's shop and a café were bombed. There has been a spate of assassinations. Recent victims have included not just members of the security forces, who are often targeted, but Egyptian labourers, a French engineer and a much-loved local poet famous for publicly reciting his work during the revolution. A Turkish manager is pulling out his staff. "They are terrified," he says. "It is not worth the risk."

The security vacuum has led to the rise of extreme Islamist groups flying the black flag of *jihad* over mosques and streets in some of the city's rougher districts and painting it on walls. American drones are often seen and heard over the city.

Yet Benghazians have a good story to tell, too. Their economy has bounced back. Neglected under Muammar Qaddafi's 42-year rule, businesses and buildings are springing up. A new shopping mall is packed with families buying clothes and cosmetics from shops with European franchises. People sip cappuccinos in trendy ▸▸

cafés. A once-drab road known as Venice Street hosts scores of ebullient retailers selling international brands. Cranes dot the city's skyline.

"Benghazi is booming," says a native businessman, smiling at his pun. Passenger numbers arriving at its rudimentary airport have doubled to 2m a year. Many of those flying in are from Libya's diaspora, whose financial clout has helped resurrect private business. Others are potential foreign investors eyeing opportunities in Libya's oil-rich eastern region. Plans are under way for a free-trade zone on the city's outskirts. Local optimists reckon grandiosely that Benghazi could be not just Libya's economic capital but also a trade hub between Europe and the rest of Africa.

But that all depends on security. If the city stays dangerous, such fine hopes will surely be dashed. ■

South Africa's trial

Justice, after all, is being done

JOHANNESBURG

A celebrity murder case may teach South Africans a bit about themselves

"WHAT do other people in SA talk about? Those who don't talk about the #OscarTrial?" tweeted Zelda la Grange, a former aide to Nelson Mandela. For weeks the country has been transfixed by the trial of Oscar Pistorius, a sporting hero with two amputated legs who killed his model girlfriend, Reeva Steenkamp—by mistake, he says.

No newspaper is printed without Oscar news. Court proceedings are broadcast live, for the first time. A new satellite television channel dedicated to the case carries legal commentary around the clock. Eusebius McKaiser, a radio commentator, says: "The trial has become compulsory viewing or listening. Like sands through the hourglass, so are the days of our criminal trial live." Public attention peaked when Mr Pistorius was harshly cross-examined, cried, vomited and broke down.

The questioning revolves around sex, jealousy, betrayal and the fast life of a boy born without fibulas who became the first disabled athlete to compete in an Olympic track event, two years ago, before he disappeared into a netherworld of gunplay, bottle-blondes and celebrity lawyers. "It's beyond what I could have made up," says Margie Orford, a Cape Town crime writer.

The main facts of the case are not in dispute. Late on Valentine's Day last year Mr Pistorius jumped out of bed with his gun and fired four bullets into Ms Steenkamp, who was behind a bathroom door. Did he act out of rage after a tiff, or in fear of an intruder, whom he said he heard in the dark?

Interest in the case goes far beyond Mr Pistorius's guilt or innocence. Campaigners highlight what they see as South Africa's dangerous proliferation of firearms. The trial has brought to light several incidents when Mr Pistorius carelessly fired a gun in public, once in a crowded restaurant, another time out of his car's sunroof after an argument with a policeman.

Some thus see him as a product of the country's malignly macho gun culture. A string of South African men have recently shot family members after apparently mistaking them for intruders. But others point out that the number of guns in South Africa has fallen sharply since the end of apartheid in 1994 to 12.7 per 100 people, not least because stricter laws were enacted in 2000. In comparison, Americans on average own one gun per head of population. Britain has 6.7 per 100.

When Mr Pistorius declared in his testimony, "I shot out of fear," he became the voice of many white South Africans. They tend to see themselves as living in the shadow of violent crime, retreating behind high walls, electric fences and steel doors. From there they can summon private security guards, who are twice as numerous as policemen, by pressing a panic button.

The trial has revived a long-running debate about other aspects of crime. South Africa's murder rate is one of the highest in the world: 30.9 for every 100,000 people, compared with 4.7 in the United States. Yet the rate has fallen by half in the past 15 years. Rich whites, the most fearful among South Africans, are actually the least endangered. Most victims are poor and black.

Though both the accused and the victim in the Pistorius case are white, race is never far away. Ms Orford suggests that the case in fact involves a third protagonist, ▸▸

Palestine

No room for a new inn

BETHLEHEM

The birthplace of Jesus is increasingly hemmed in

SO GREAT has been the recent expansion of Jewish settlements around the little Palestinian hamlet of Beit Skaria, on the south-western edge of Bethlehem, that it is now completely surrounded. To reach its pretty hilltop you have to drive through the sprawling settlement of Gush Etzion, one of the largest of Jewish settlement blocs on the West Bank, close to the 1967 border. One crop of settlements after another has now been built on the land of the Beit Skaria villagers, who are banned by the army from putting up any new buildings themselves. When they need to renovate their dilapidated homes, they smuggle in building material in their car boots.

For the people of Bethlehem up the road, Beit Skaria is a bleak example of what might yet happen to them. On all sides, Bethlehem is also being surrounded by settler bypass roads and by concrete walls higher than those that divided Berlin in the cold war. Earlier this month, Israel's defence ministry confiscated the largest chunk of private Palestinian land in years on Bethlehem's southern fringe to let smaller settlements, previously unauthorised by the Israeli government, expand. The population of Beitar Illit, an ultra-Orthodox settlement to the west of Bethlehem, in the Gush Etzion bloc, is set to grow from around 45,000 to 100,000 in the next six years.

With little land left for new inns, Bethlehem's land prices have soared. The boom in building hotels for Christian pilgrims has slowed, as hoteliers scour for new land. Thanks to foreign pressure,

Source: UN

Sami Abu Daya, a Palestinian hotelier, got Israeli permission in principle to build what he says will be the first Palestinian hotel in Area C, the rural 62% of the West Bank administered solely by the Israelis. But his request to build a plush hotel complex on a hill just outside Bethlehem's municipal confines has yet to receive the go-ahead from the plethora of Israeli committees.

Farther south, a Turkish firm has offered to finance a hotel project aimed at Muslims returning from the pilgrimage to Mecca. It would be the largest such complex in the Holy Land. But it is on hold, too, says its developer, because Israel is loth to issue permits. Bethlehem's authorities have built a modern landfill to cater for an increase in rubbish. But the Palestinians say the Israelis will not let the site operate unless it treats the new Jewish settlements' garbage as well.

"the threatening body, nameless and faceless, of an armed and dangerous black intruder". She detects and deplores the ghost of the "*swart gevaar*" (the black peril) that sustained apartheid in the past century—and is still around.

Some observers say that Mr Pistorius in his defence reflects the laager mentality of long-dead Afrikaners who felt they were up against the world. In an article headline, "Crossing the street to avoid white men," Sisonke Msimang, a writer, invokes the spectre of "white impunity" and "violent acts perpetrated by white men against black people who were simply minding their own business". She raises the possibility that "because we see whites as victims and blacks as perpetrators, our collective sympathies are always with whites."

A racial dimension

Still more controversially, Sandile Memela, an advocate for the ruling African National Congress (ANC), wrote on a website, "Oscar would be a hero if Reeva were a black man." Trigger-happy whites, he added, feel entitled to kill anyone on their property who is black. "You cannot trust a black man," he wrote. "This is what white paranoia has driven some white men to do: shoot first and ask questions later." Following an outcry, Mr Memela apologised.

But others have sought to ease racial tensions. Every day members of the ANC Women's League come to court in support of the family of Ms Steenkamp, whom they see as a victim of domestic violence, another of South Africa's biggest blights. Some see the trial as a referendum on the country's willingness to confront it.

A recent study in Gauteng province, which includes Johannesburg, found that 50% of women experience violent abuse at home and 75% of men admit to dishing it out. Four days before she was killed, Ms Steenkamp, who was aware of the issue, tweeted, "I woke up in a happy safe home this morning. Not everyone did."

Though less hotly debated, the most enduring legacy of the Pistorius spectacle may be its impact on the police and on the justice system. Flaws in both have been exposed. It turned out that one of the investigating detectives on the case was himself facing a murder charge. Evidence has sometimes been mishandled. Courtroom translation has been embarrassingly poor.

Yet on the whole the justice system has stood up to its televised scrutiny fairly well. The presiding judge, an impressive black woman, is treated with nothing but respect. Mr Pistorius calls her "M'lady". His expensive white lawyers cannot shield him from the robust questioning by Gerrie Nel, a so-called "pit bull" who is himself something of a celebrity. South Africans watching may be reassured by the sight of a famous white man being attacked and defended in equally vigorous measure. ■

Kenyan farmers

Insure my cows

WAJIR

A new kind of insurance may protect herders against drought

AS WELL as a cheque for $700, a knowing look passed between Hassan Bashir and Bashir Mohamed, his 80-year-old father. A payment at a ceremony for herders in Wajir, a town near Kenya's border with Somalia, settled an argument dating back to 1997, when the son moved into the insurance business. Mr Bashir, born into a cattle-herding Somali family in the rugged north-east of Kenya, was told that his career choice was not only odd but un-Islamic. Many imams say that *sharia* law does not sanction conventional insurance, deeming it to contain elements of gambling.

Despite being proud of his earning power, Mr Bashir found his father would not touch the money. He would not even accept the cash to go on the *haj*, the pilgrimage to Mecca. "He did not know anything about insurance," said the son. "He just knew it was wrong."

His family's disapproval persuaded Mr Bashir to set up Takaful, Kenya's first *sharia*-compliant insurance company. It offers mutual or "charity insurance", whereby the insurer acts as an agent, charging a set fee rather than un-Islamic interest. But Mr Bashir would not stop at insuring his community's cars, homes and businesses; he wanted to solve their biggest problem, the loss of livestock to drought.

That proved harder. Insuring animals who range with semi-nomadic herders across some of the harshest terrain on earth had defeated all previous efforts. Eventually he came across the work of a Kenyan economist, Andrew Mude of the International Livestock Research Institute (ILRI), based in Nairobi.

Mr Mude has developed an insurance model that uses satellite images to assess the impact of drought on the vegetation that camels, cows and goats need to survive. The data allow for the severity of the drought to be factored into the size of the premium. If dry weather causes grazing to drop by at least 15%, judging by historical records, the insurer will pay out. This model "insures the grass, not the animal", says Mr Mude. Mr Bashir's father was paid, along with dozens of others, after his area was judged to have suffered a 23% drought. He got a cheque worth 8% of the total insured value of his beloved herd of 50 cows.

Persuading seasoned Somali herders who have been husbanding their animals the same way for centuries to pay insurance premiums has not been easy. Mr Bashir has bent the ear of local imams and sheikhs and brought in Islamic scholars. Meanwhile donors, including Britain and Australia, whose aid agencies fund ILRI, have stumped up more money to get the word out around Wajir. The only problem, Mr Bashir concedes, is that, with all his herder clients currently grazing in one area, everyone must be paid at the same time when the rains fail.

To get enough clients Takaful must recruit herders from across northern Kenya and into southern Ethiopia to spread the risk far enough so that a single drought will not clobber all its clients at once. It will be a costly undertaking; Mr Bashir expects it to make a loss for at least five years. Talking his father around to the benefits of insurance took 17 years. "This community has peculiar needs," he says ruefully. ■

Not the end of the boy's world if his cow can't survive

The Economist

SPECIAL REPORT
CHINA
April 19th 2014

Building the dream

Building the dream

By 2030 Chinese cities will be home to about 1 billion people. Getting urban China to work properly is vital to the country's economic and political future, says James Miles

SOME HISTORIANS BELIEVE that Marco Polo never went to China. But even if the 13th-century Venetian merchant did not lay eyes on the coastal city of Hangzhou himself, he certainly reflected the awe it inspired in other foreign traders when he described it as "beyond dispute the finest and the noblest in the world". And, "incredible as it may seem", he wrote, Hangzhou (which he called Kinsay) was but one of more than 1,200 "great and wealthy cities" in southern China. "Everything appertaining to this city is on so vast a scale...that it is not easy even to put it in writing."

In Marco Polo's day it was the ornate palaces, paved roads and meticulously planned layouts of Chinese cities that impressed visitors; in today's megacities it is some of the world's tallest skyscrapers and largest shopping malls, interlinked by the world's longest bullet-train network. And if all goes according to the Communist Party's plan, the coming two decades will evoke a few more gasps.

By 2020 the high-speed rail network will expand by nearly two-thirds, with the addition of another 7,000km (4,300 miles). By then almost every city with a population of half a million or more will be connected to it. Tens of millions more migrants will have poured in from the countryside. Between now and 2030, says the World Bank, the average rise in the number of city-dwellers each year is likely to be around 13m, roughly the population of Tokyo. In 2030 China's cities will be home to close to 1 billion people, or about 70% of the population, compared with 54% today. By some estimates the urban population will peak around 2040, still just shy of the 1 billion mark but close enough. As James McGregor, an American businessman, put it in his book, "One Billion Customers", published in 2005, the notion of a billion Chinese spenders has come to symbolise "the dream of staggering profits for those who get here first, the hype and hope that has mesmerised foreign merchants and traders for centuries".

After taking over as party chief in 2012, Xi Jinping (now also president) launched his expected decade in power with a catchphrase: "The Chinese dream". It was a striking break from the party's tradition of ideology-laden slogans. Now endlessly invoked in official speeches and the subject of numerous books and songs, the phrase is clearly intended to appeal to upwardly mobile urban residents striving for the comforts of their rich-world counterparts.

Only 15 years ago such a middle class barely existed in China. In 2011, when the country reached 50% urbanisation, it had become obvious that the party's fate rested with the stability of cities and the content- ▸▸

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ACKNOWLEDGMENTS

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A list of sources is at **Economist.com/specialreports**

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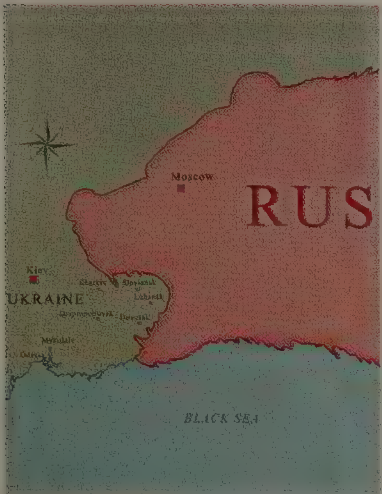

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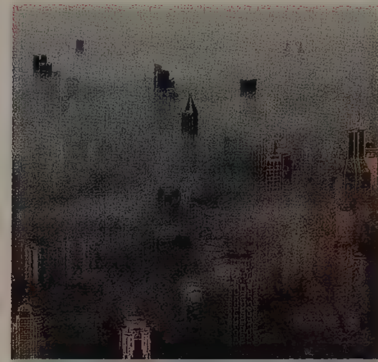

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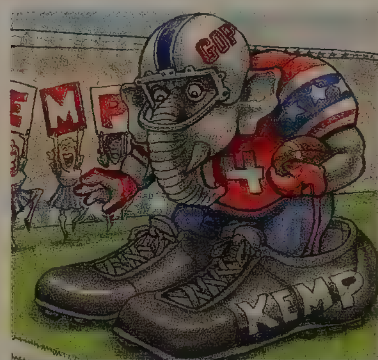

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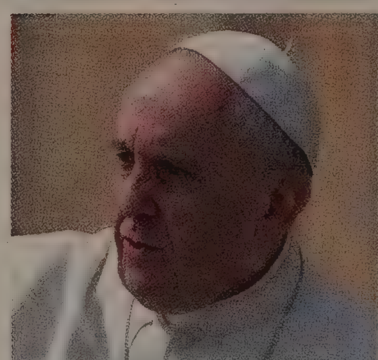

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The Global Centre is a monument to consumption—an increasingly essential ingredient of China's economic development

Chengdu, the capital of Sichuan province, is a "second-tier" city, a loosely defined category that includes most provincial capitals; yet it is rapidly gaining the "first-tier" status of Shanghai, 1,600km (1,000 miles) to the east. That suits China's leaders, who are trying to boost consumption in regions that have fared less well in China's almost uninterrupted boom of the past 35 years. Thanks to massive government investment since the turn of the 21st century, the gap between the wealthy east and the far less developed west of China has narrowed. According to the Economist Intelligence Unit, a sister organisation of this newspaper, average GDP per person in China's western provinces in the late 1990s had dropped to about one-third the figure in the nine eastern coastal provinces; but by 2012 it had recovered to more than half, the highest level since China launched its economic reforms in the late 1970s.

The Global Centre seems to be reckoning on a fair number of wealthy spenders in Chengdu: it provides 15,000 parking spaces. It is also readily accessible by the city's first metro line, which opened in 2010 (there are now two lines, and plans for an underground network of more than 350km by 2020, close to the length of London's). But Chengdu's new middle classes much prefer to drive. The city has more than 3m private cars, second only to the number in Beijing. And at weekends the centre already seems to be packing visitors in.

Consuming passions, continued

Like the rest of the country, though, Chengdu is beginning to slow down. The city estimates that its GDP last year grew by about 10%, two percentage points less than it was aiming for and the lowest rate since 1999. Nationally the picture is much the same. This year's overall growth target is for 7.5%, the same as last year's and a far cry from the double-digit advances of most of the past decade. But that does not mean household spending will falter. Andy Rothman of Matthews Asia, an investment firm, calls China "hands down the best consumption story on the planet". Retail sales last year went up by 11.5% in real terms, after 12.1% in 2012 and 11.6% in 2011. China's household spending over the past few years was holding up well, he argues. It was just that investment grew even faster.

A "rebalancing" may be under way. Except for a dip last year, the share of GDP growth contributed by households and the government has been rising (see chart 1 on the previous page). In 2011 and 2012 it exceeded that contributed by investment for the first time since the middle of the past decade. Last year China overtook Japan to become the world's second-largest consumer economy.

However, there is a lot more that China's leaders could do to achieve the goal set by the prime minister in March: that the country should "fully tap the enormous consumption potential of more than a billion people". The Global Centre was not built for the mass market, as attested by a display inviting shoppers to invest in luxury resort property in Thailand. A large group of people living in China's cities is, in effect, "shut out of the urban consumer economy", says Tom Miller, author of "China's Urban Billion": the one-third of urban residents who have migrated from the countryside. They make up about 40% of urban labour and the majority of China's workforce in manufacturing and services, but they spend very little.

As Mr Miller notes, this is changing, thanks to a shift in China's demography. In 2012 China's working-age population (those between 15 and 59; most Chinese retire young) began to shrink. In response to shortages of young, unskilled labour, local governments have been raising minimum wages. This has been good for inland cities like Chengdu, which have benefited from production shifting westward in search of lower labour costs. It has also been great for migrants: their average wages doubled between 2005 and 2011, to about 2,050 yuan ($322) a month, and last year rose by nearly 14%. But a lot remains to be done to turn these migrants into big spenders.

A good start would be to change their official household registration, or *hukou*, to the city, entitling them to the welfare benefits and access to public services enjoyed by other city-dwellers and thus releasing some of their spending power. Migrants have an unusually high savings rate, far higher than that of either urbanites or rural dwellers, perhaps to compensate for the absence of welfare benefits. According to Chi Fulin of the China Institute for Reform and Development, rural migrants on average spend 2.7 times as much when they move to urban areas as they did at home. But they still need to save to make up for their lack of entitlement to housing and other benefits. If they also change their *hukou*, their expenditure more than triples.

Yet for most migrants changing *hukou* is next to impossible. They continue to be called *mingong* (peasant workers) no matter how long they have been living in the city, and so do their children, even if urban-born and raised. For reasons of equity as well as economic advantage, *hukou* reform has become urgent. ■

The rural-urban divide

Ending apartheid

For China's reforms to work, its citizens have to be made more equal

MIGRANTS ENCOUNTER BARRIERS of speech, habits and manners the world over, but in China these are heavily reinforced by the system of *hukou*, or household registration, which permits routine discrimination against migrants by bureaucrats as well as by urbanites (a term applied in this special report to city-dwellers who have no rural connections themselves, and nor do their parents). In a survey conducted by the Chinese Academy of Social Sciences, nearly one-third of respondents in Shanghai said they would not like to live next door to a migrant, against only one-tenth who said they would rather not live next to a poor person. In Changchun, a less outward-looking city in the north-east, nearly two-thirds said they did not want to live next to a migrant. Chinese urbanites seem as anxious as Europeans about migration from poor to rich places, even though in China the migrants are fellow citizens.

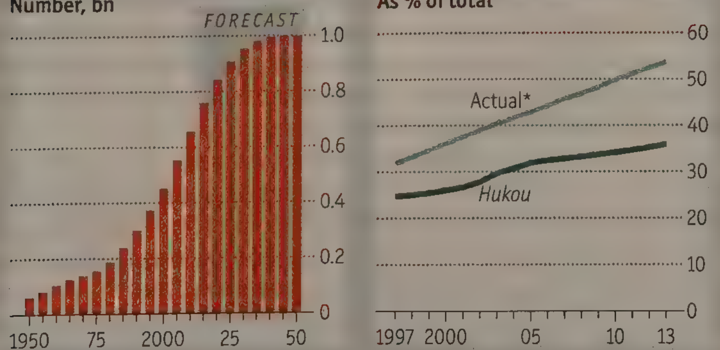
In one crucial respect, however, they fall short of that status. A migrant may have been living in a city for many years, but his *hukou* will still identify him as rural. The document acts as an internal passport. China's first constitution in 1954 said that citizens enjoyed "freedom of residence and freedom to change their residence". Four years later Mao Zedong introduced the *hukou* system in order to prevent a flood of migrants pouring into the cities. It was eased only in the 1980s when China needed cheap labour for its factories. But the pernicious legacy of *hukou*-induced apartheid persists today.

If China's level of urbanisation were calculated on the basis of *hukou*, rather than residency, it would be a mere 36%, not far ahead of India's (31%). Very few of those who have migrated to the cities over the past three decades have obtained urban *hukou*. This matters a lot because a person's *hukou*, rather than his place of residence, determines the level of welfare benefits he is entitled to. The city-born children of migrants suffer the same discrimination, often being denied access to urban state-run schools and having to clear higher hurdles to get into university.

The *hukou* divide is sharpest of all in China's "first-tier" megacities, which are among the biggest magnets for migrants. In some, including Beijing, they are not allowed to buy cars or houses unless they meet what for most would be impossibly exacting conditions. Thus, as China's middle class has expanded rapidly, a similarly large group of urban "second-class citizens" (as even the official media have sometimes called the migrants) has grown in parallel. Not that it matters in a one-party autocracy, but migrants and their urban-raised offspring are not even allowed to vote in the cities.

Still plenty of upside

China's urban population

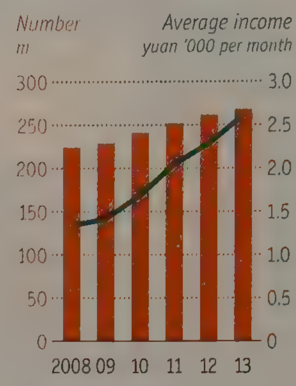


Sources: UN Population Division; Haver Analytics

*Resident for six months or longer

No longer so cheap

China's migrant workers



Source: Haver Analytics

In the decade to 2010 the migrant population living in cities grew by more than 80%, a colossal influx that pushed up the total number of urban residents by some 200m. China has been remarkably successful in controlling the spread of urban slums: over the same period the proportion of city-dwellers living in slums fell by one-quarter to below 30%, according to a UN study. And many of these slum-dwellings are relatively smart compared with their counterparts in other developing countries, thanks to tough controls on building shanty towns.

Risking an explosion

Even so, migrants often live in grim conditions. Out of sight are pockets of wretchedness similar to slums in developing countries such as India. One such is the village of Dongxiaokou north of Beijing, just beyond the edge of the city's urban core. A village only in name, it is essentially a centre for processing waste. Thousands of migrants, most of them from impoverished villages in a single prefecture of the central province of Henan, prepare sackfuls of tin cans, piles of iron scrap and mountains of plastic bottles for bulk sale to recycling plants.

It is a scene of Dickensian poverty, with migrants packed into tiny brick shacks off muddy, rubbish-strewn streets. Their children go to ramshackle private schools that charge around 4,500 yuan ($725) a year, several weeks' income for many migrants. For most of them there are no places at state schools. If migrants fall seriously ill, they have little choice but to go back to their villages; their government-subsidised rural medical insurance is often not valid in a different province (or even, until last year, in a different part of Henan). The only migrants who have urban health insurance are those with formal job contracts, but not even one in five enjoys that privilege.

The party appears to be waking up to the disruptive potential of an urban underclass. Early in 2013 Li Keqiang, the prime minister, began calling for a "human-centred new style of urbanisation". In November last year the party decided to speed up the pace of *hukou* reform. Officials have been calling for "equal rights" for all urban residents. A new word has entered the party lexicon: *shiminhua*, which means turning a migrant into an urbanite with all the perks of a city *hukou*-holder. The declared aim of urbanisation now is not just to move people into cities, but more importantly to make urbanites of them.

That will be both costly and hugely contentious. Mr Li's plan for a new style of urbanisation was published in March after many months of bickering among officials. It glossed over the crucial question of how to pay for it all, which hints at strong resistance by local governments that do not want to foot the bill, and by urbanites who fear their privileged access to education and health care will be stripped away. Li Tie, a government re- ▸▸

Going to a better place

searcher, in a book last year wrote that online support for *hukou*-related reforms was "not running high". Part of the problem, he said, was that policymakers, journalists and online commentators were themselves urban *hukou*-holders and as such formed a "rigid interest group", posing a "severe" challenge to reforms.

At the same time many holders of rural *hukou*, despite the discrimination they suffer, are suspicious of moves to give them urban status. They fear that it might lose them the right (conferred by rural *hukou*) to a small patch of farmland and a residential plot in their village of registration. Mr Li's urbanisation plan failed to provide reassurance.

In July last year the agriculture ministry conducted a survey of nearly 7,000 rural *hukou*-holders, mostly male and living in the countryside, which found that only about a quarter regarded getting an urban *hukou* as important. Even among those whose entire families were living in urban areas, the share was only just over half. The main reason for not wanting urban *hukou*, the survey found, was fear of losing entitlements to land. Last October a senior official on the National Health and Family Planning Commission said that as many as 70% of rural migrants wanted to stay in the cities but had no wish to give up their rural *hukou*. That chimes with the views of the waste-recycling migrants of Dongxiaokou village. One middle-aged man standing by the roadside says he would far rather have his tiny patch of land in backward Henan province than a promise of a pension in wealthy Beijing.

Losing the plot

Given the discrimination they face, it seems odd that migrants themselves resist reform, but they will continue to do so until the government allows them to sell their land and sever their ties with the countryside for good. Mr Li has promised this, but local governments, used to seizing land at will, are loth to give up that privilege.

The new urbanisation plan calls for 100m migrants to be given urban *hukou* by 2020, but there will still be conditions: at a minimum, applicants will need a stable job and a legal place of residence. That would rule out most migrants, who often live in unauthorised lodgings and work without contracts.

Officials sometimes hold up the city of Zhongshan in the southern province of Guangdong as an example of how *hukou* reform could work. Since 2007 migrants into the city (who make up more than half its population) have been able to apply for city *hukou* on the basis of points scored for educational qualifications, ownership of property, payments of social-security contributions and volunteer work (such as giving blood). Yet since the scheme was launched, only around 30,000 out of a total migrant population of 1.6m have gained local *hukou* this way. Migrants can also use their points to apply for just some of the benefits associated with urban *hukou*, which has enabled them to secure places at state-run schools for about 25,000 of their children. But that is out of a total of 200,000 migrant children attending school in Zhongshan (and many more who are studying in their parents' villages of origin). All the same, in January Zhongshan won a prestigious award in Beijing for its points system.

In June 2012 three days of large-scale rioting erupted in Shaxi, a satellite town of Zhongshan, fed by rumours that security agents had maltreated the son of a migrant worker who was involved in a fight. Peng Ronghui of Zhongshan's department in charge of migrant management admits that the city's migrant population has created "a problem of social control". She says they "lack a sense of belonging and their morale and self-discipline is relatively poor".

Cities like Zhongshan worry that lifting *hukou* restrictions would require massive extra spending on public services such as education, health care and housing. Yet most local governments would simply not be up to the task. ■

Local government

Emerging from the shadows

Seizing land and running up debts is no way to finance local government

RESIDENTS OF CHAOBEI NEW CITY know what it is like to be "upstairsed"—the word for turfing farmers off their land, pushing them out of their homes and making them move into newly built clusters of blocks of flats without lifts. It is forced urbanisation, to which local governments have taken with relish in their rush to acquire precious land. Chaobei New City is the reincarnation of six flattened villages: a desolate, prison-like, rubbish-strewn ghetto. On a concrete wall along one side, billboards spell out the risks of protesting. For example, depositing funeral wreaths, ashes from cremations or corpses at government petitioning offices could be treated as crimes.

Chaobei New City's very name conveys the mindset of those who ordered it built: officials who hoped that by destroying the villages and building 56 blocks of flats in their place they could create a semblance of urbanity. The residents would still be classified as peasants for welfare purposes, but the statistics would count them as urban. To local officials, who take enormous pride in urbanisation rates, such numbers matter. Xianghe county, to which the "new city" belongs, is in Hebei province,

about 45km (30 miles) east of Beijing. Like almost every other local government in China, Xianghe's has an urbanisation target: 60% by 2017, up from around 50% today and ahead of the national target of 60% by 2020. Since the global financial crisis in 2008, governments have been hardening such objectives as a way of stimulating growth, and have been borrowing heavily to meet them. The result has been a rapidly growing pile of debt that has spooked global investors.

Seizing land is an easy way of acquiring cash or collateral for borrowing, and since the 1990s this technique has become a favourite of local governments. Some have used the pretext of building what they call "new-style rural communities", such as Chaobei New City. Such schemes have uprooted millions of farmers around the country. In one prefecture alone, Chinese media quoted a local leader in 2010 as saying he planned to flatten villages with a total population of 1m within three to five years. The coastal province of Shandong has moved more than 12.5m villagers into nearly 5,200 "new-style rural communities" since 2009, according to the local government. It calls this "urbanisation on the spot".

Mod cons from hell

Central-government officials have expressed alarm and (ineffectually) reminded local governments that resettlement must be voluntary. Beijing newspapers have run several exposés of the horrors of being "upstairsed", comparing the phenomenon to Britain's enclosure movement of the 18th and 19th centuries when landlords stripped farmers of their right to use common land. Last September *Xinmin Evening News*, a Shanghai newspaper, described cracks in Chaobei New City's buildings, flooded basements, sagging ceilings and a leaky sewage system.

Angry victims of forced appropriations are legion. According to state-controlled media, seizures of rural land by local governments are the cause of 60% of mass petitionings in China and of nearly 4m disputes every year. Lynette Ong of the University of Toronto says almost all compulsory relocations involve gangs or secret societies, often hired by local governments to push farmers out. Occasionally evictions trigger large-scale protests, but strong-arm tactics usually deter farmers from putting up much resistance. The thuggery, often brought to light by social media, is a political embarrassment to the central government. But what is behind these land grabs is of far greater concern: a financial system that has gone wrong and a system of local governance that has become dangerously dysfunctional.

Chaobei New City is symptomatic of both. The local government sold ten hectares (25 acres) of the land seized from the villagers to a local developer, Xiu Lan Real Estate Group. The company is using it to build Rivedroite Town, a cluster of lavish French-style houses separated by a wide road from the farmers' new flats. It is unclear how much Xiu Lan is investing or where the money is coming from, but the company's website suggests it has a close relationship with large state-owned trust companies. Such institutions are a widespread and openly acknowledged source of financing for property projects. Their lending is less strictly regulated than that of formal banks. A cosy relationship between both types of institution has enabled what Stephen Green of Standard Chartered calls "shadowy activity" by formal banks, which use their informal counterparts to channel lending into property and other risky projects.

Local governments receive half the nation's fiscal revenue but are responsible for 80% of spending

Some trust companies and banks raise funds by selling fixed-term investments known as wealth-management products (WMPs). These promise better returns than bank deposits, interest rates on which are capped at extremely low or even negative real levels—a legacy of Maoist banking that has proved hard to shake off. But this short-term finance often supports long-term projects, creating a dangerous maturity mismatch. And some institutions may be repaying maturing products with fresh funds raised from new ones. In 2012 Xiao Gang, then chairman of the state-owned Bank of China and now in charge of regulating the country's stockmarkets, described this as "to some extent...a Ponzi scheme".

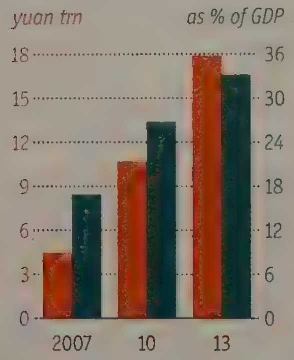
In theory banks are not liable when WMPs go wrong. In practice, when defaults have occasionally loomed, ways are almost always found of keeping investors from losing much, if anything (including in the biggest potential default so far, of a $490m trust product issued through China's biggest bank, ICBC, that was due to mature in January; a stalled mining venture related to the project suddenly got official permission to go ahead).

Local governments, which in China cannot borrow from formal banks or sell municipal bonds without central-government backing, are among the biggest borrowers through such shadow channels. They mostly use the money to finance public works (including knocking down villages in the hope that resulting "urbanisation" might stimulate growth). In response to the global financial crisis of 2008 the central government loosened controls on bank lending. The volume of new loans doubled in 2009. Much of the money found its way indirectly into the hands of local governments which used it in a spending binge in an effort to maintain growth. As a result, debts soared. Along with WMPs, this has become the biggest worry to bearish observers of China's economy.

There are good reasons for concern about local-government borrowing, and about the banks and trust firms, but financial meltdown looks unlikely. An audit made public in December showed that in mid-2013 local governments directly owed 10.9 trillion yuan ($1.8 trillion), an increase of more than 60% on 2010. This is by no means crippling. Taken together with other debts for which local governments are, or might be, liable, such as those of local state-owned enterprises, it amounts to one-third of GDP. The central government would never allow a local government to default, so these debts are for the centre to worry about. GK Dragonomics, a research firm, says total government debt may be 70-80% of GDP, still well below the levels of many rich countries with lower growth. ▸▸

Unsustainable

China's local-government debt:



Sources: Haver Analytics; National Audit Office

Risks are certainly growing. Standard & Poor's, a credit-rating agency, points out that projects which once looked viable may cease being so as growth slows. It outlines a possible scenario: a WMP fails, investors stop buying new products and non-bank credit dries up. Investment slows and property prices drop. Non-performing loans rise, putting pressure on banks. Credit slows further, and growth with it. In the event of such a crisis, however, the central government could take bad loans off the banks' books and order them to resume lending. It could also ramp up its own spending. It would not solve the problem, but could avert an immediate crisis.

To reduce such risks, China must introduce a range of reforms. The most pressing of these is to lift controls on bank-deposit interest, which would reduce depositors' incentives to shift money into riskier WMPs. There are signs that it is gradually moving that way, but for all the recent talk of the importance of markets, progress remains slow. Zhou Xiaochuan, the governor of China's central bank, in March held out the possibility of full liberalisation of interest rates in a year or two. Banks themselves are not keen because higher rates would cut their profit margins.

Reform is also slow in two areas that are key to local governments' woes: the way in which their spending obligations, such as on public works, are funded; and the ownership of rural land. Changes in both are vital if China's new "human-centred" urbanisation is to succeed and officials' rapacious instinct to grab land is to be tamed.

Local governments' lack of money to cover their spending needs is a problem of the Communist Party's own making. In 1994, worried about the central government's rapidly declining share of the country's total revenue, the party reorganised the tax system to boost the centre's takings. But it failed to reduce the burden on local governments, which have remained responsible for such coffer-draining activities as providing education and health care. The central government transfers funds to local ones (via provincial governments) to cover basic costs, but this is often far from enough. Local governments receive half of the nation's fiscal revenue but are responsible for 80% of spending.

To make up shortfalls, local officials turn to rural land. Whereas the property rights of urbanites were strengthened from the late 1990s, thanks to the privatisation of urban housing and legislation to protect it from government interference, the property rights of villagers have remained vulnerable to abuse. Landesa Rural Development Institute, an American NGO, found that in 1,791 villages it surveyed, the number of land seizures had nearly tripled between 2007 and 2011. Land-related income, which in 2001 made up one-sixth of local-government revenue, had soared to three-quarters a decade later.

Counting the cost

Giving urban benefits to migrants will cost a lot of money. Unless a new way of funding local governments can be found, they are likely to solve the problem in the time-honoured manner: by seizing yet more land. The central government might help, but could it afford to? Estimates of the likely expense vary widely. A report this year by the Chinese Academy of Social Sciences put the cost of providing a migrant worker with full urban benefits at 130,000 yuan. A government study in 2010 came up with a figure of 80,000 yuan. But Kam Wing Chan of the University of Washington writes that even at about 100,000 yuan per migrant, the total would still be manageable.

Mr Chan calculates that it would add up to around 23 trillion yuan, or more than 44% of China's GDP in 2012. That would be more than any economy could cope with, but it would not happen all at once. If it were done gradually, bringing in 20m migrants annually, it would mean spending a far more manageable 3.8% of 2012 GDP a year. But in fact those 100,000 yuan of healthcare and other expenses would be stretched out over a lifetime, so the actual annual cost of converting 20m people to full urbanite status would be 0.1% of 2013 GDP, Mr Chan reckons: about one-fifth of what China spent on the 2008 Olympic games.

That would leave the task of giving full property rights to farmers. Doing so would make it more difficult for local governments to seize land, which in turn would make it harder for them to find ready collateral for piling up huge debts. Most importantly, it would empower farmers, and perhaps even end the tyranny of village officials who use their control over land to fill their pockets. Last November the party pledged to allow rural land (though not arable land) to enter the market on the same terms as any other property. This will take time: even deciding who owns what in the countryside will be tricky. And local governments are not keen to dispense with a ready source of cash.

But the party has to press ahead. If financial and social stability are not sufficiently powerful incentives, there is another to consider: the rampant urban sprawl encouraged by local governments' ability to seize rural land at will. Such unrestrained expansion may work in parts of America where there is plenty of empty land (albeit at a cost to the environment and often to the quality of life). In China, where urbanisation has forced around 40m farmers off their land over the past three decades, usually with little or no compensation, it will not. ■

Urban sprawl

People, not paving

China's largest cities can mostly cope with population growth. The spread of concrete is a bigger problem

TO GRASP THE size of China's largest cities, and the pace of expansion of even the remotest of them, consider the south-western city of Kunming. Looking at a map, it would be easy to dismiss it as a backwater, tucked in a mountainous subtropical corner of China that borders on some of South-East Asia's poorest countries: Vietnam, Laos and Myanmar. Yunnan, the province of which Kunming is the capital, is one of China's most backward, with a nominal GDP per person roughly that of Albania. By the standards of China's provincial capitals Kunming's urban population is merely middling, yet at 3.8m it roughly equals that of America's second-largest city, Los Angeles. By the end of this decade it is likely to have risen by 50%.

There will, however, be no mushrooming of shanty towns along the shore of Dian Lake, Yunnan's largest and the one-time pride of Kunming (ill-regulated urban growth has since turned it so toxic that its water is deemed unfit even for industrial use). Officials have what they think is a far better plan: building a new suburb called Chenggong. This will account for most of a project-

Dreaming spire

A Shanghai suburb that is forever England

OXFORD STREET IS a quiet cobbled lane, with Tudor-style shop fronts and lights supposed to look like gas lamps. At one end it opens out onto a small square. A bronze statue of Winston Churchill stands in front of the open-air colonnade of Thames Bar, looking towards an elderly man sitting on a bench on the other side of the plaza. He is petting his two pugs, one dressed in a yellow jacket and the other in blue. It is so much cheaper here than in central Shanghai, he says—and, traffic permitting, it is only an hour away by car.

President Xi Jinping may be having a Chinese dream, but the country's city planners are often inspired by foreign examples. Thames Town has Victorian- and Georgian-style housing for 10,000 people, red phone booths and, perhaps oddest of all, a church (pictured) with a spire closely modelled on a mid-19th century Anglican one in Bristol. A columnist in *Global Times*, an English-language newspaper in Beijing, accused Shanghai officials of being "unconcerned about cultural affinity or national ethos", succumbing to "the appeal of the foreign".

Thames Town is often scoffed at as one of China's most peculiar "ghost towns". For years most of its houses remained empty. Its town centre attracted far more people in search of a novel background for wedding photographs than for suburban homes. (Cashing in on this, many of Thames Town's shops offer photographic services and wedding regalia for hire.) But in the environs of a city like Shanghai, one of China's most prosperous, building the town was probably a good long-term bet. Soaring property prices in the city centre are forcing buyers ever farther out.

Shanghai has a record of proving doomsayers wrong. Thames Town and other European-themed suburbs like it are but tiny specks compared with the vast endeavour that the city undertook in the 1990s, clearing a semi-industrial, semi-rural area of tens of thousands of people to make way for a new financial centre on the east side of the Huangpu river. In 2000 this newspaper called the new Pudong zone a "ghost town of a business district". It is now a skyscrapered icon of Chinese economic power.

New shops are opening in Thames Town, and residents say occupancy is picking up. Three years ago even the church acquired a congregration—though that was just transplanted from a Catholic church nearby, demolished to make way for yet more urban growth.

ed 40% expansion of the built-up area of the city of Kunming. Kunming's urban-planning exhibition promises "a beautiful environment" for Chenggong.

Work on the new addition is already well under way. Thickets of residential tower blocks and office buildings are sprouting. Chenggong was connected to Kunming's new metro network last year. City-government offices and local universities have already moved there. By 2016 it will have a $525m bullet-train station with one of its 30 tracks connecting to Shanghai, 2,000km (1,200 miles) to the east. By the end of this decade the population of Chenggong is expected to reach nearly 1m, three times its current level. Not so long ago Chenggong was derided as a ghost city in the making. Few are now so scornful.

Kunming's orgy of urban expansion sits oddly with a long-established Chinese policy of seeking to limit the population growth of large cities. An urban-planning law adopted in 1989 calls for strict control. Even after a decade of huge expansion in which the urban population of Beijing (including its satellite towns) grew by about 7m to nearly 17m, the party still clings to the hope that it can keep such expansion in check. When it unveiled plans for wide-ranging economic reforms last November, it called again for "strict control over the population size of extra-large cities". For all the party's recent emphasis on the role of market forces, they are still not allowed to determine people's movements.

Kunming could now argue that it is not "extra-large". The central government's new urbanisation plan released in March suggests that the term applies only to cities with urban populations over 5m. On this definition only about 15 cities qualify, and they do not include Kunming. Previously, however, "extra-large" had meant any city with more than 1m people, of which China has more than 130. (America, by contrast, has a mere nine in this category.) A little redefinition goes a long way.

The central government wants cities to grow, but prefers the smaller ones to grow faster than the rest. Its new urbanisation plan calls for *hukou* barriers to be scrapped altogether in cities with fewer than 500,000 urban residents. Those bigger than 500,000 have been asked to remove or relax *hukou* rules, but in an "orderly" or "reasonable" manner, meaning not all at once. In extra-large cities tough *hukou* restrictions are to remain in place. Yet in the past decade the populations of small cities have been shrinking, largely because bigger ones have proved to be a much more powerful draw for migrants.

Plenty of room for more

The government's worries about population size are overblown. Chinese cities are by no means unusually crowded. Three Chinese scholars, Ming Lu and Zhao Chen of Shanghai's Fudan University and Zheng Xu of the University of Connecticut, argue in a recent paper that apart from cities with 10m people or more, the average big city in China has "a lot of room for growth". Even greater Beijing, which city officials think is bursting at the seams, is far less densely populated than greater Tokyo.

Rather than try to control population size, the central government would do better to have a go at curbing the spatial expansion of cities. Local bureaucrats have a predilection for vast

areas of concrete. Plazas, broad boulevards and colossal airports and railway stations have become their badges of honour. In the central city of Zhengzhou, what local officials called the largest bullet-train station in Asia opened in 2012: a $2.4 billion edifice with a plaza in front which together cover around 240 hectares (about 340 football pitches). The station is half-deserted.

Such extravagant use of land and money will only increase if the government continues to encourage cities to expand their populations. Built-up areas across the country have recently been growing by an average of 8% a year whereas their populations have been rising by only 5%. In western China the gap is far wider, with urban areas growing three times faster than their populations, according to Fudan University's Mr Lu. Kunming provides evidence of extravagant habits. Luo Chun, a professor at Yunnan University, reckons his institution's new campus in Chenggong district is five times the size of its old one in the centre of Kunming. The original campus remains in use.

Central officials are concerned about this, but for the wrong reasons. They fear that urban sprawl could make it more difficult for China to maintain near-self-sufficiency in staple foods. The country is already hovering close to what officials describe as a "red line" of 120m hectares available for planting such crops. Even so, grain production has been rising. Thanks to fewer people in the countryside, farming is becoming more efficient.

A better reason to worry about sprawl is that it is making China's cities less "harmonious and liveable", to use a phrase in vogue among the country's city planners. Old neighbourhoods are being demolished, their inhabitants scattered into far-flung gated communities, commuting times are lengthening, car-dependence is growing and the spatial divide between rich and poor is widening. All this contributes to what officials call the country's growing "urban disease". ■

Greenery

Let us breathe

Pollution in cities is becoming a political issue

THE WORD "ECO-CITY" first took off with a book written in 1987 by Richard Register, a green thinker based in California. Now what may become the world's first city with the word in its name is beginning to take shape in the unlikely setting of a smog-shrouded expanse of salty mud on the northern Chinese coast. Around a lake that not so long ago was a sewage farm, energy-efficient apartment blocks are going up. Electric buses ply the still largely empty streets. Public litter bins are equipped with solar lighting so that residents can find them more easily at night. China's urban growth is warming up the planet, and the elaborately named Sino-Singapore Tianjin Eco-City is being touted as a cool solution.

Few other countries could dream of building a large city from scratch, let alone an eco one, but China has the advantage of an autocratic approach to urban planning (and to governance in general). It can decree that a piece of land will become a green city, commandeer it and sell it cheaply to developers. That is how the eco-project began in 2007 when Singapore proposed a co-operative green-city venture. China's leaders agreed, having recently awoken to the environmental horrors wrought by breakneck urban expansion. Later that year the party formally declared that its goal was to build an "ecological civilisation". The 30 square kilometres of inhospitable terrain near the northern port city of Tianjin became a test bed.

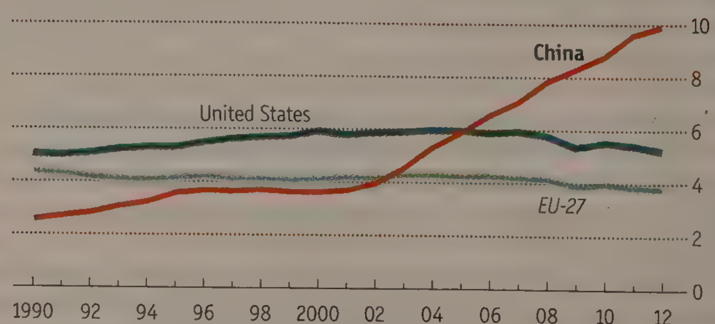
China has tried a couple of eco-city projects before and failed. About 60km (40 miles) farther along the coast to the east of Tianjin, in Caofeidian, work began in 2009 on an eco-city aiming for 500,000 residents by 2020. Yet most of the site remains a wilderness, too remote to attract developers. In Shanghai, plans a decade ago for a similar-sized eco-city on an alluvial island became entangled in local corruption and never got off the ground. But Tianjin's, with strong backing from central and local governments, is making progress.

To give it a flying start, officials designated it as China's first industrial park devoted to the animation industry. The $690m state-funded zone opened in 2011 and has attracted hundreds of businesses. To lure in more residents, the government built a Victorian-style school in brown brick with lavish facilities, including a room full of stuffed animals to help children learn about nature ("all real, except the tiger and the panda," says a proud teacher). A 350-bed hospital, supposedly one of the best in China, is due to be completed next year, at a cost of $110m.

At a control centre a dozen officials watch a giant screen dis- ▸▸

The price of progress

Carbon-dioxide emissions, tonnes bn



Source: EDGAR

Public resentment of China's deteriorating environment, particularly the noxious haze over its cities, is growing

playing readings from heating and water systems, as well as feeds from closed-circuit cameras at traffic intersections. "If an emergency happens, we can respond," says an official surveying the images of lifeless streets. Officials are not deterred by the "ghost city" label. The city opened two years ago and now has 10,000 residents. By 2030 it aims to have 350,000. Work is due to begin this year on subway lines that will make it easier for locals to get to Tianjin, currently about an hour's drive away, and nearby industrial zones.

The government has a powerful incentive to support the project. Within China, public resentment of its deteriorating environment, particularly the noxious haze over its cities, is growing, and abroad the country is being criticised for its contribution to global warming. In 2006 China became the world's biggest emitter of carbon from energy, overtaking America; it is now spewing out nearly double America's level (see chart 5, previous page). The spread of Chinese smog across the region is worrying neighbours such as South Korea and Japan.

Ho Tong Yen, the Singaporean CEO of the eco-city's development company (and a director of Mr Register's Californian consultancy, Ecocity Builders), says he believes many of the eco-city's methods will eventually become "a key part of urbanisation in China". A decade ago, he recalls, Chinese officials he met at conferences would boast about their cities' GDP growth. Now they brag about how green their cities are.

A work in progress

This sounds like a bit of a stretch. China's urban landscapes appear to be the antithesis of green: smog, foul-smelling streams and canals, roads jammed with exhaust-belching cars, shoddy buildings erected with little heed to building codes. But growing public discontent with the urban environment is beginning to change at least the rhetoric of officials, and in some cities their actions as well. In recent years about a third of China's 600-plus municipalities have announced plans to turn themselves into eco-cities. The central government has imposed stricter controls on emissions of carbon and smog-forming pollutants. In March the prime minister, Li Keqiang, declared "war" on pollution. Smog, he said, was nature's "red-light warning against the model of inefficient and blind development". It was a remarkable admission of urbanisation gone wrong.

Since there is no agreed definition of an eco-city, local governments interpret the term to suit themselves. They often use it as an excuse for prettification, or worse, for seizing yet more land from farmers and using it to build luxury housing, with golf courses next to them (because grass is "green"). Even the eco-city in Tianjin, a drought-prone area, has a golf course, supposedly irrigated with recycled water. Mr Register himself is not altogether bowled over by the project. In 2012 he wrote that its layout, with the wide streets and long blocks typical of modern Chinese cities, looked "every bit as if created to encourage driving". Its plan for 20% of its energy to come from renewable sources does not sound much bolder than the nationwide target of 15% by 2020, against 9% now.

Many people, many cars

Private passenger cars
Selected cities, 2012, m

Source: China SignPost

And for all its claims to greenery, the eco-city lacks a vital ingredient: a thriving civil society that is free not only to protest about the environment but to put pressure on the government to live up to its promises. The party talks green and sometimes even acts tough, but all the while it has been machinating to prevent the growth of an environmental movement. It does not want residents to set their own agenda for the way cities are run. ■

Politics

The urban voice

China's new middle classes, quiescent so far, may soon become more demanding

CAO TIAN IS a property dealer who dreamed of changing his city. As a poet and writer chosen by the government of Henan in central China as one of the province's ten cultural personalities of the year in 2006, he clearly did not lack imagination. When in May 2011 the mayor of Zhengzhou, Henan's capital, announced he was stepping down, Mr Cao said that he would stand for election to replace him. Not only would he take no salary, he would put up 100m yuan ($15.4m) as a guarantee of good behaviour while in office.

It was a good try, but he knew it was doomed. Chinese law says that independent candidates can stand for the post of mayor in cities. In theory all they need is the support of 20 members of a city's legislature, which in Zhengzhou is less than 4% of the total. But legislators are hand-picked by the Communist Party. Most of them are officials and party members. Mr Cao says he spoke to half a dozen he knew and got nowhere; they were all "very obedient" to the party. "You can eat with them, you can gamble with them, but you cannot talk [about standing for election]," he says. The authorities made that clear enough. They launched a tax investigation into his company, a common tactic

for intimidating dissenters. Mr Cao left town for a few months. To no one's surprise, the acting mayor, Ma Yi, was elected by Zhengzhou's legislators to fill the post.

Mr Cao's challenge was an act of rare bravado. In China, entrepreneurs like him are usually reluctant to cross the line into political activism because business deals often depend on good ties with the party. At the time of Mr Cao's mayoral bid China's leaders were more than usually jittery following a series of pro-democracy uprisings in the Arab world. Internet activists were anonymously calling for China to stage its own "jasmine revolution", the name given to Tunisia's revolt in late 2010. Online censors were busy trying to expunge any reference to the word "jasmine"; police were rounding up dissidents and even telling florists not to sell the flower.

It was a bad moment to provoke the authorities, especially for someone like Mr Cao, who had form. After the pro-democracy unrest of 1989 he had been sentenced to 12 years in prison for "counter-revolutionary" behaviour (he had organised a protest against the bloody crackdown in Beijing). Thanks, he believes, to foreign pressure on China he served less than three years, but recalls jail as "hell". His punishment, he says, included having to watch condemned prisoners being shot.

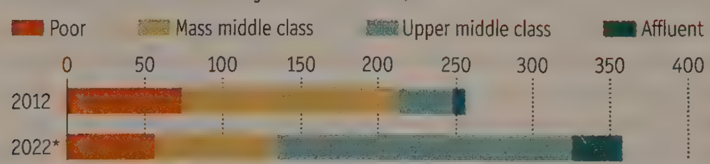
The rapid growth of a middle class in China increases the risk, as the party sees it, that more people like Mr Cao will begin to find their political voice. Unusually for a man who makes his living from property, Mr Cao says that as mayor he would have tried to control soaring prices. He thinks a property tax would help, but would be opposed by the many corrupt officials who own expensive properties.

The biggest middle-class protests have been mostly about factories producing paraxylene (PX), which some fear might release poisonous fumes

Many argue that China's new middle class is largely in favour of the political status quo; many of its more affluent members are officials, former officials or closely in league with officialdom. But the economic make-up of middle-class China is rapidly changing. McKinsey, a consultancy, reckons that in 2012 only 14% of urban households belonged to what it calls the "upper middle class" (with an annual household income of 106,000-229,000 yuan, or $16,000-34,000, in 2010 real terms) and 54% to the "mass middle class" (with an income of 60,000-106,000 yuan). By 2022, it estimates, the upper segment will have expanded to more than half and the mass part will have shrunk to 22% (see chart 7). With this rise of what McKinsey calls "sophisticated and seasoned shoppers" will come demands for a bigger say in how their cities are run. "Unmet, these demands could raise social tensions," as the World Bank and China's Development Research Centre observed in a joint report in 2012. A second joint report by the two organisations, "Urban China", published in March, called for comprehensive reforms.

A thicker upper crust

China's urban households by income bracket, m



Source: McKinsey

*Forecast

Very few are challenging the party politically, but growing numbers are getting involved in campaigns to protect their neighbourhoods from government projects that might affect their health and comfort or the value of their property. Such protests occasionally take on a political hue, providing cover for a wealth of grievances about the opacity of city management, the high-handedness of officials and pervasive corruption.

The biggest middle-class protests have been mostly about factories producing paraxylene, a chemical used in the production of polyester. Since 2007 large-scale protests have erupted in five cities over plans to build such facilities, the main concern being that the factories might release poisonous fumes. The fears are probably overblown, but reflect widespread and profound distrust in officialdom. The demonstrators' ability to gather in public places in their tens of thousands, with the help of mobile text messages and microblogs, has highlighted the weakness of China's censorship system. PX, as the chemical is often called, has become a cover for poking at the party. Those of dissident bent gleefully count off the cities that have witnessed PX protests: Xiamen in June 2007, Dalian in August 2011, Ningbo in October 2012, Kunming in May 2013 and Maoming earlier this month.

Zhou Min, a restaurant reviewer in Kunming, is one of them. She says she used not to care about politics. But in response to the protests in her city last May the police detained dozens of activists. Officials even briefly attempted to stop the sale of medical face-masks for fear they might be donned by demonstrators. "Now I've changed my mind," says Ms Zhou, who was herself interrogated by police, accused—falsely, she says—of being an organiser. "If only we had the vote, then we could veto projects like these," she says, visibly angry. During the recent anti-PX protests in the southern city of Maoming police used tear gas and batons against demonstrators.

Most of the time urban China displays few obvious signs of discontent. Since the late 1990s the party has managed a period of rapid middle-class growth, along with huge urban expansion thanks to an upsurge of migration, with remarkably little unrest in the cities. Protests have been far more common in the countryside, mainly against the government's seizure of land from farmers. The mostly peaceful PX protests have been a rare exception to widespread middle-class quiescence.

Looking on the dark side

But the mood in China's cities could be changing. Middle-class urban residents look ahead with greater anxiety: about the slowing of China's growth; about the harmful effects of air pollution and contaminated food; about rising house prices that are making middle-class dreams of property ownership ever less achievable; about the burden of looking after an ageing population that is growing ever faster; and (especially among recent graduates) about the difficulty of finding a job. Richer Chinese worry about whether they can protect the wealth they have accumulated in the past few years. Could a marginalised urban underclass turn against them? Could an anti-corruption campaign such as President Xi Jinping's current drive land them in jail? Growing numbers are voting with their feet. When in 2012 and 2013 researchers at Shanghai University surveyed nearly 2,000 people in urban areas of Shanghai and five provincial capitals across China, nearly one in five said they would emigrate if they

had the chance. Those in the wealthiest cities were most eager to leave. In Shanghai one-third said they would go if they could, and in Guangzhou nearly 40%. Hurun Report, a company that monitors China's rich people, said in January that 64% of nearly 400 Chinese with personal wealth of at least 10m yuan ($1.6m) that it surveyed were emigrating or planning to do so, compared with 60% a year earlier.

With his talk of a "Chinese dream", Mr Xi has prompted debate among his countrymen about how far they feel they are from a dream state. A survey last year by the Chinese Academy of Social Sciences (CASS) on attitudes to the "Chinese dream" found that only just over half of the 7,300 respondents believed they lived in a "good society". Equality, democracy and being rich and powerful were rated most highly as the hallmarks of such a society. The party itself bandies around such terms, but Li Chunling of CASS says that what China's middle class understands by democracy is closer to Western ideas.

China's leaders clearly worry about this, as evidenced by the cottage industry that has sprung up to produce translations and analyses of Alexis de Tocqueville's work on the French revolution, "The Old Regime and the Revolution", published in 1856. This was prompted by a recommendation of the book in 2012 by Wang Qishan, who is now a member of the Politburo's Standing Committee. Exactly what drew Mr Wang to the book is not known, but Chinese media have focused on one of its main arguments: that revolution is more likely to occur when an authoritarian society begins to reform than during its period of maximum repression. *China Daily*, a government-controlled newspaper, notes that copies of the book have been prominently displayed in the Beijing bookshop of the Communist Party's main training school for senior officials. New versions carry blurbs such as "Recommended by Wang Qishan". One is subtitled: "Why Does Prosperity Hasten the Advent of Revolution?"

The possibility of revolution still appears remote, but the risk of larger-scale social unrest in urban areas is growing. To divert attention from trouble at home, China's leaders may be tempted to flex their muscles abroad. ■

A new society

Pushing the boundaries

The rapid move to the cities has handed Xi Jinping a daunting challenge

FEW OUTSIDE CHINA have heard of Sansha, the country's biggest city. Its administrative area is 150 times larger than Beijing's, or roughly the size of Kazakhstan. Yet Sansha's population is no bigger than that of a village and consists mostly of fishermen. Its government is on an island too small even to fit in an airport; the military airstrip stretches out into the South China Sea, where most of the city's watery territory lies. It is a city only in name, set up to assert China's claims in a vast swathe of sea encompassing some of the world's busiest sea lanes. If Shanghai inspires awe, Sansha causes alarm.

The city was created (in bureaucrats' minds, though probably not the fishermen's) seven years ago and upgraded in 2012 to "prefectural level". Its tiny land area comprises about 200 islets clustered in three groups that are bitterly contested. Two of the groups, the Spratlys (Nansha in Chinese) and the Paracels (Xisha), are claimed by Vietnam. The third, known as Zhongsha in Chinese, includes Scarborough Shoal, which is claimed by the Philippines but has in effect been controlled by China since 2012. Some of the Paracels were controlled by South Vietnam until 1974, when it was expelled after a battle with China. It was on one of these, Woody Island (pictured), that the party installed Sansha's legislature, which duly elected a man likely to be the country's least busy mayor.

An empty threat

Sansha is one of China's most bizarre, and unsettling, attempts at city-building; an undertaking motivated by a desire to stake out territory and scratch the itch of nationalism. Some 2.6m of the South China Sea's total area of 3.5m sqare kilometres are said to be under the city's jurisdiction, giving access to a wealth of resources: an estimated 5m tonnes of harvestable fish and huge reserves of oil and natural gas. Parts of the vast area are also claimed by five other countries. The creation of Sansha was intended to rebuff them.

China's spectacular urban-led growth in recent years has been changing the way the country behaves abroad in important ways. First, it has been fuelling a voracious demand for imports of commodities, from oil to iron ore. More than half of China's supplies of both are now bought from abroad. As a result, much more of China's diplomatic attention is being focused on cultivating relations with commodity-exporting countries, mostly in the Middle East, Africa and Latin America (several of them no friends of the West).

Second, China is now much more worried about the security of its supplies. It feels uneasy about leaving America to patrol vital shipping lanes such as those through the South China Sea. And third, China's growth has given it much greater confidence, increased by the West's economic malaise in recent years. The country is asserting itself more visibly, especially in nearby seas that have long been under America's sway.

Mr Xi himself also happens to be a far more confident leader than his predecessor. He has not been afraid to take steps that raise tensions with American allies, notably Japan and the Philippines. This suggests to some in Asia that China has had enough of America as the region's dominant power and is beginning to do something about it. Certainly the risk has increased that a small incident might escalate into a bigger conflict. For ▸▸

now, however, Mr Xi does not appear to be spoiling for a fight. China cosies up to America's rivals, most notably Russia, but it also sees its economic interests, and hence its strategic ones, as closely linked with America's.

It is developments inside China, in real cities, that should worry the outside world more. Urbanisation, especially over the past decade, has handed Mr Xi a daunting legacy. When his predecessor, Hu Jintao, came to power in 2002, urban China was far less of a challenge. The country was recovering well from the Asian financial crisis of 1997-98. Its north-east had been wracked by large-scale protests by workers laid off during the massive downsizing of the state sector from the 1990s, but Mr Hu kept the region largely quiet by directing dollops of cash to it. The internet was still the preserve of a small urban minority.

A harder place to run

The picture today is very different. Economic growth is slowing. As this special report has explained, rapid urbanisation has spawned two huge new social forces: a middle class and an underclass. Both are much bigger than they were a decade ago; both are suspicious of, and sometimes hostile towards, each other; and both often distrust the Communist Party.

Just in the past five years social media such as Sina Weibo and WeChat have connected hundreds of millions of Chinese in a conversation held in near-real time, much of it less than flattering about the party. More than 60% of urban residents now use the internet. The shoots of civil society are beginning to grow; small, scattered groups are working on everything from helping HIV/AIDS sufferers to cleaning up the environment. The security apparatus keeps close tabs on them but rightly worries that urban China may be changing too fast for it to keep up.

Double-digit growth for much of this century has not only made many ordinary Chinese better off but bestowed breathtaking riches on the families of some members of the political elite (including some of Mr Xi's extended family). This has proved impossible to cover up. Mr Xi's anti-corruption efforts risk causing strife among political clans eager to protect their privileges. He may be China's strongest leader since Deng Xiaoping, but urbanisation has fuelled the growth of other, often countervailing, powers too: large state-owned enterprises that have gorged on property and commodities, local governments bloated by reckless borrowing to build ever bigger cities, and an internal security apparatus that now spends more than the army, most of it on policing cities.

Mr Xi and his team have correctly identified the need for a better approach to urbanisation: one that will help ease social tensions which have built up over the past decade, bring local governments into line and make big SOEs contribute much more to welfare and share more of their markets with the private sector. They have been making encouraging noises about the need to reform the iniquitous *hukou* system, strengthen farmers' property rights and make cities more "liveable".

But Mr Xi needs to go much further. The party still cannot bring itself to talk of a "middle class" (too unsocialist-sounding), much less acknowledge that its aspirations are more than just material ones. In January a famous actor, Huang Bo, introduced a new song about the "Chinese dream" on state television's most popular show of the year, the Spring Festival gala. It was called "My Needs Are Modest". The middle-class fantasy it described (without naming it as such) was an advance on the usual calls for selfless devotion to the nation, but it was still politically sterile: "I can earn money, and still have time to go to Paris, New York and the Alps. I stroll through the shopping mall and go skiing in the mountains. Days like these are so carefree."

Optimists still wonder whether Mr Xi might eventually allow a little more political experimentation. At the party's 19th congress in 2017, five of the Politburo Standing Committee's seven members are due to step down, leaving only Mr Xi and Mr Li, the prime minister. Of the replacements expected to join them, at least two are thought to have liberal(-ish) leanings. But few observers are holding their breath.

Huang Bo's modest needs

In 1997 China's leaders set a goal of making China "moderately well off" by 2020, just in time for the party's 100th-birthday celebrations the following year. Judgment on whether this has been achieved will be passed while Mr Xi is still in office. As long as China's GDP keeps on growing at about 7% a year (as is plausible, possibly even making China's economy bigger than America's by then), it will not be hard for him to tick off the economic targets. But the party has said that "moderately well off" also means a more democratic China, and one that respects human rights. Ignoring those aspects risks antagonising the constituency that has become most vital to sustaining the party's power: the urban middle class. Mr Xi would do so at his peril. ■

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Greek politics

Remaking the political landscape

ATHENS

A new burst of optimism about the economy is not yet luring many voters back to the two mainstream parties

GREECE'S chances of recovery after six years of misery are improving. Its first bond offering in four years, seen as a test of confidence, did much better than expected. Tourists are flocking in for Easter; hoteliers predict a record 19m visitors will come this year. One long-blocked resort project on Crete seems poised to go ahead, raising hopes that foreign investment may flow into other industries such as electricity and ports. Angela Merkel, the German chancellor and often one of Greece's harshest critics, spoke encouragingly to young Greek entrepreneurs during a quick visit to Athens on April 11th.

Yet the new optimism does not seem to be trickling down to most voters. Unemployment fell slightly in January, but still stood at 26.7%. The social safety-net is stretched so thin that only one in ten of the unemployed gets any benefits. Private-sector workers complain of being paid months in arrears. An estimated 35% of Greeks now live in poverty, according to social workers and charities.

No wonder Greece's clientelist political system is in tatters. It was once a politician's responsibility to find jobs in the public sector for his (rarely her) constituents. Ambitious MPs extended their patronage to the private sector. "My application for an assistant supermarket manager's job was picked on merit, but it wasn't approved by the local MP—he wanted someone else," says Simos, a 28-year-old economics graduate now working in Germany.

Angry voters used to shout "Thieves, traitors" outside parliament as lawmakers waved through a string of unpopular reforms demanded by Greece's creditors. The centre-right New Democracy (ND) and the PanHellenic Socialist Movement (Pasok), partners in a fractious coalition with only a two-seat majority in parliament, are now widely blamed for the collapse of the patronage system that they built during 30 years of alternating in power.

Some voters have switched instead to "anti-systemic" fringe parties that advocate extreme solutions to Greece's woes. At next month's European elections, being held at the same time as local elections, two new moderate centre-left parties, Elia (Olive tree), led by a group of academics and former ministers, and To Potami (the River), led by Stavros Theodorakis, a television journalist, are trying to plug the gap opened up by Pasok's slump.

Many on the left now back Syriza, a radical left-wing party led by Alexis Tsipras, a fiery 39-year-old who scares Greece's businessmen with talk of imposing a wealth tax and suspending debt repayments. Evangelos Venizelos, the Pasok leader (and foreign minister), is fighting attempts by George Papandreou, a former prime minister, to reassert authority over the party founded by his father Andreas, Greece's first Socialist prime minister. Mr Venizelos backs Elia, but Mr Papandreou refuses to join him, prompting speculation that he seeks a political comeback to stop his dynastic party disappearing.

ND has proved Greece's most durable party, surviving several changes of leadership. Yet its voters provide much of the support for the neo-Nazi Golden Dawn, a homophobic, anti-immigrant party whose 18 deputies are accused of running a criminal organisation. Embarrassingly for Antonis Samaras, the prime minister and ND leader, a leaked video showed his chief of staff, Takis Baltakos, telling Ilias Kasidiaris, Golden Dawn's spokesman, that the public prosecutor had found barely a shred of evidence against him. Mr Baltakos quit; and the affair has had little impact on ND's poll rating. Mr Samaras is far ahead of Mr Tsipras as "most suitable prime minister".

Opinion polls nevertheless give a slight edge to Syriza over ND, with both parties consistently on 18-20%. Pasok has sunk to around 3.5%, and could fail to win any European seats. More than three-quarters of Greek voters would like Mr Papandreou to retire from politics. Golden Dawn has fallen from 11% to about 8%, but it could bounce back on a sympathy vote if Mr Kasidiaris, who is running as Golden Dawn's candidate for mayor of Athens, is placed in custody before polling day on May 25th.

Elia is polling around 5% but is seen by many as a dull and outdated revamp of Pasok. But To Potami has picked up voters at dizzying speed, moving into third place, with 11-15%, within three weeks of its launch. The 50-year-old Mr Theodorakis, wearing a T-shirt and trainers and carrying his trademark backpack, tours the country ▸▸

making low-key speeches about cracking down on tax evasion, promoting meritocracy and creating jobs for young Greeks. These are soothing sounds for voters fed up with traditional politicians.

Some analysts claim that To Potami is backed by powerful business interests determined to stop Syriza and, perhaps, to force Mr Samaras to call an early general election later this year. Mr Theodorakis insists his party is financed by small donations. Questioned by a Pasok deputy about his party's finances, he snapped back, "It takes a lot of chutzpah to ask about our campaign when your party has dumped €140m on the Greek taxpayer." He was referring to unpaid bank loans run up by Pasok when Mr Papandreou was in power. Greece's political landscape is shifting—perhaps for the better. ■

Turkey's prime minister

Erdogan v judges, again

ISTANBUL

The prime minister lashes out at his opponents

THE biggest foes of Recep Tayyip Erdogan were the generals and the judges, who made common cause to try to oust Turkey's pious prime minister (he was trained as an imam) on thinly supported charges of steering the country towards Islamic rule. But they failed. The army was tamed through a series of court cases against alleged coup-plotters. The judiciary was overhauled after constitutional reforms were approved in a referendum in 2010. Turkey's democracy was at last on track, many hoped, until Mr Erdogan began tilting towards unabashed authoritarianism after winning a third term in 2011.

Flush with yet another victory in the March 30th local elections, in which his conservative Justice and Development (AK) party swept up 45% of the vote, Mr Erdogan is now back at war with the judges and, say many Turks, with democracy itself. On April 11th the constitutional court overturned parts of a bill rammed through in February to give the government greater control over the judiciary. The power grab was part of a broader campaign to quash corruption charges levelled against Mr Erdogan's children, business cronies and members of his cabinet. The campaign included a ban on a social-media site, Twitter, on which a stream of incriminating recordings of alleged conversations between Mr Erdogan and his son Bilal were posted.

The court threw out the Twitter ban earlier this month, and access was restored. But Mr Erdogan fumed that he did not "respect" the ruling and said that the judges who issued it "ought to take off their gowns". He also called Twitter, Facebook and YouTube "tax dodgers" and said they must pay Turkish taxes. YouTube remains off limits to Turkish users, even though a lower court has overruled a separate ban on the site. The company has now appealed to the constitutional court.

Meanwhile, the main opposition Republican People's Party (CHP) is saying that AK rigged the March 30th elections. Such claims may be overblown, but some Western diplomats agree that the CHP probably won in Ankara, where AK squeaked in by a mere 30,000 votes. The Higher Election Board has spurned the CHP's repeated demands for a recount, while accepting all those lodged by AK.

Mr Erdogan blames most of his recent troubles on his former ally and fellow imam, Fethullah Gulen. He says Mr Gulen, who lives in Pennsylvania, has set up a "parallel state" by putting his followers into powerful positions in the police, courts and security services (Mr Erdogan has just passed a law tightening his grip on the spooks). Their masters are Israel and others who "cannot digest Turkey's success" and want to overthrow AK, claims the prime minister. Millions of voters unwilling to risk a decade of economic prosperity under AK apparently believe him. The flow of leaked recordings has stopped since the election. Mr Erdogan now vows to crush Mr Gulen's network of international schools and universities abroad: Gambia has caved in to AK pressure, but the Iraqi Kurds have politely refused. None of this helps Turkey's image.

The CHP leader, Kemal Kilicdaroglu, is calling on the opposition to agree on a compromise candidate to challenge Mr Er- ▸▸

French politics

Vallsmania

PARIS

The danger of a prime minister who outshines the invisible president

WHEN President François Hollande chose Manuel Valls as his new prime minister, he took a big gamble. His hope was that some of the popularity of the tough-talking, action-man Socialist would rub off on him. Instead, the opposite seems to be happening. Mr Valls's popularity rating, at 58%, is the highest for a new mid-term prime minister in the Fifth Republic, but Mr Hollande's has dropped to a new low of just 18%.

The only previous occasion when a mid-term prime minister got close to such highs was 1997, when Lionel Jospin was made head of a Socialist government under the Gaullist Jacques Chirac, and won 47% approval. Yet this was during political cohabitation between the left and right. Exclude such periods, and the popularity gap between Mr Hollande and Mr Valls, at 40 points, sets a modern record, according to Ifop, a pollster whose ratings go back to Charles de Gaulle.

Mr Hollande has lost support across the political spectrum, including on the left. Among Socialist voters, his rating has crumbled from 60% in March to 48%. Another poll this week suggests that, if a presidential election were held today, he would be beaten into the run-off by the National Front's Marine Le Pen. With his no-nonsense reputation and authoritative edge, Mr Valls, by contrast, gets a handsome 79% rating from Socialist voters—and 58% from those who back the centre-right UMP. "*Le coprésident*" read a recent cover of the weekly *Le Point*.

Vallsmania may not last. The daily grind of the job fells most modern prime ministers, as it did Mr Jospin. Indeed, the French refer to *l'enfer* (the hell) of Matignon, the Paris mansion that is the prime minister's office. For a president under the Fifth Republic, this is part of the point. The head of state is meant to rise grandly above the rough-and-tumble, leaving his prime minister to carry the can when things go wrong.

Yet Mr Valls's popularity is so broadly based that he may be insulated for longer than most. This sets up an awkward, unstable dynamic. Until now, although he is a past rival of Mr Hollande, Mr Valls has been studiously loyal. He ended up running Mr Hollande's 2012 campaign, keeping a close eye on every detail, down to the knotting of his tie. But, as one friend puts it, Mr Valls "thinks only about the presidency". The longer the popularity gap lasts, the more dangerous he may become. The politician whom Mr Hollande chose to rescue his presidency could end up being his biggest threat.

Valls ties the boss in knots

dogan if he runs in the presidential election due on August 10th. Hasim Kilic, the constitutional court's liberal president (and a devout Muslim) is a possible contender. Another is Meral Aksener, a female deputy for the far-right Nationalist Action Party (MHP) with a reputation for toughness and probity. Mr Kilicdaroglu is rumoured to favour a different lady: Umit Boyner, an outspoken former president of TUSIAD, the main business lobby.

The one person who might have defeated Mr Erdogan is the incumbent, Abdullah Gul, because he can unite voters of all stripes, including Turkey's 14m Kurds. A co-founder of AK, Mr Gul has so far chosen to back Mr Erdogan, perhaps in hopes of swapping jobs with him. But should Mr Erdogan's dictatorial outbursts persist, he might just have second thoughts. ■

Culture wars in Ukraine

History lessons

The conflict in Ukraine spreads to its museums

"HE WHO controls the past controls the future." Orwell's dictum now faces a new test. Shortly before Russia annexed Crimea, the Bakhchisaray museum, north of Sevastopol, lent some valuable artefacts to an exhibition in the Netherlands. The question as to which country these (and other objects from Crimean museums) should return is creating a diplomatic conundrum.

"Let yourself be overwhelmed by the gold of Crimea," boasts the Allard Pierson Museum in Amsterdam. Never before has Ukraine lent so many mostly Crimean treasures. The Black Sea peninsula is filled with gems left by invaders over the centuries. The exhibition includes a Scythian gold helmet from 400 BC, pottery from Greek colonisers and a lacquered Chinese box that came along the Silk Road. "We have given our very best objects," sighs Valentina Mordvintseva, a curator at the Crimean branch of the Institute of Archaeology. She fears she may not see them again.

Who is the rightful owner? On legal grounds, Kiev has the upper hand because the Allard Pierson signed a loan agreement with the Ukrainian state. And as the Netherlands does not recognise Russia's annexation, Ukraine still owns the property. Yet the Dutch also signed contracts directly with the lending museums. And, says Inge van der Vlies, a professor at the University of Amsterdam, there is an ethical case for returning the objects to them. But there is no guarantee that Russia might not pinch the pieces the moment they arrive.

The Dutch foreign minister, Frans Timmermans, does not wish to meddle but he also wants to avoid being seen to accept a new form of art looting. This may be impossible; whether the gold returns to Crimea or to Kiev, each side will accuse the Dutch of pilfering.

A UNESCO resolution warns of the "massive transfer of priceless cultural objects from Crimean museums to the Russian capital". But a rogue Russia is hardly going to be deterred by reminders to stick to its obligations under international law relating to cultural property.

Whose helmet is it, anyway?

Italian politics

Silvio Berlusconi, social worker

ROME

Embarrassments pile up but the former prime minister still has political clout

NOT good: but far from the worst outcome. On April 15th a Milan court ruled that Silvio Berlusconi should serve his sentence for tax fraud by helping in an old people's home in Milan. But the former prime minister will be free to go to Rome from Tuesday to Thursday. In practice, the 77-year-old is unlikely to spend more than half a day a week pretending to help grannies, and then only for nine months.

As often happens in Italy, a daunting punishment has been whittled down to a mild reproof. Mr Berlusconi's four-year sentence was cut to one year because of an amnesty law from a centre-left government in 2006. He could not be jailed thanks to another law passed by one of his governments that bans the imprisonment of most over-70s. Since the court had ruled out house arrest, there is nothing to stop him leading his Forza Italia! party into next month's European elections. The message that Mr Berlusconi was not just any criminal, but the leader of Italy's main conservative party, was neatly conveyed to the judges when he spent some hours with the prime minister, Matteo Renzi, discussing a constitutional reform that requires his party's parliamentary support.

Despite this clout, three recent events have left the media tycoon and his party beleaguered. On April 10th a judge sequestered €49m ($68m) of assets said to belong to Roberto Formigoni, who was for 18 years governor of Lombardy and for all but three a leading member of Mr Berlusconi's party. Mr Formigoni, who has joined Angelino Alfano's breakaway New Centre Right (NCD) party, is to go on trial next month charged with corruption and conspiracy. He denies wrongdoing.

Then on April 12th police in Lebanon arrested Marcello Dell'Utri, the man who created Forza Italia! from nothing in the early 1990s, giving Mr Berlusconi the vehicle he needed for his political career. Mr Dell'Utri, a Sicilian, remained close, despite controversy over his alleged links to Cosa Nostra. He disappeared shortly before the supreme court could rule on his seven-year jail sentence for aiding and abetting mobsters. Lower-court judges ruled that his collaboration with the Mafia ceased before he founded Forza Italia! But his legal problems and fugitive status are embarrassing for the party and its leader.

Lastly, on April 13th, Mr Berlusconi's long-standing spokesman, Paolo Bonaiuti, confirmed he was leaving Forza Italia!, but not the centre-right—a hint that he will join the NCD. His decision to quit was evidence of tensions that have multiplied within Forza Italia! as the party has drifted without a clear direction in recent months.

The possibility that Mr Berlusconi might have been under house arrest drew renewed attention to his lack of a successor. Mr Alfano founded the NCD after Mr Berlusconi had handed him the leadership, only to snatch it back again. But whether Mr Alfano can build a credible alternative to Forza Italia! remains to be seen; five months after its foundation, the NCD averages less than 5% in the polls.

Forza Italia!'s share has slumped from 29% at last year's election to 21%, below Beppe Grillo's maverick Five Star Movement (M5S). Unless Mr Berlusconi can find a way to revive his party's fortunes, it is possible that the next confrontation in Italian politics will not be between right and left, but between Mr Renzi's Democratic Party and an M5S that aspires to replace not just all the mainstream parties but parliamentary democracy itself. ■

Charlemagne | Russia's friends in black

Why Europe's populists and radicals admire Vladimir Putin

IF EUROPE'S far-right parties do as well as many expect in May's European election, no world leader will be happier than Vladimir Putin. For a man who claims to be defending Russian-speakers in Ukraine against fascists and Nazis, the Russian president has some curious bedfellows on the fringes of European politics, ranging from the creepy uniformed followers of Jobbik in Hungary to the more scrubbed-up National Front in France.

There was a time when Russia's friends were principally on the left. There are still some pro-Moscow communists, for instance in Greece. But these days the Kremlin's chums are most visible on the populist right. The crisis in Ukraine has brought out their pro-Russian sympathies, most overtly when a motley group of radicals was invited to vouch for Crimea's referendum on rejoining Russia. The "observers" included members of the National Front, Jobbik, the Vlaams Belang in Belgium, Austria's Freedom Party (FPÖ) and Italy's Northern League, as well as leftists from Greece and Germany and an assortment of eccentrics. They declared that the ballot, denounced by most Western governments as illegitimate, had been exemplary.

So what does Europe's far right see in Mr Putin? As nationalists of various stripes, their sympathies might have lain with their Ukrainian fellows fighting to escape Russian influence. In fact, argues Peter Kreko of Political Capital, a Hungarian think-tank, beyond favourable treatment in Russian-sponsored media, many are attracted by Mr Putin's muscular assertion of national interests, his emphasis on Christian tradition, his opposition to homosexuality and the way he has brought vital economic sectors under state control. For some, pan-Slavic ideas in eastern Europe play a role. A common thread is that many on the far right share Mr Putin's hatred for an order dominated by America and the European Union. For Mr Putin, support from the far right offers a second channel for influence in Europe.

The flirtation with Russia first became apparent in eastern Europe some years ago, despite memories of Soviet occupation. Jobbik, which took 20% of the vote in Hungary's recent election, denounced Russian riots in Estonia after the removal of a Soviet war memorial in 2007. But a year later it backed Russia's military intervention in Georgia. Far-right parties in Bulgaria and Slovakia also supported Russia. Since then, Russian influence has become apparent in western Europe, too. Marine Le Pen, leader of the National Front, has been given red-carpet treatment in Moscow and even visited Crimea last year. At December's congress of Italy's Northern League, pro-Putin officials were applauded when they spoke of sharing "common Christian European values". Among those attending were three nascent allies: Geert Wilders of the Netherlands' Party for Freedom, Heinz-Christian Strache of the FPÖ, and Ludovic de Danne, Ms Le Pen's European adviser.

For Mr de Danne the parties share an aversion to the euro and, more widely, to the EU's federalist dream. They oppose globalisation and favour protectionism. They seek a "Europe of homelands", stretching from Lisbon to Vladivostok. As for Ukraine, he calls the revolution in Kiev "illegitimate" and says the referendum in Crimea was justified by the pro-Russian sentiment of the Crimean population. By attaching themselves to the EU and America, Ukraine's new rulers expose their country to IMF oppression and the pillage of its natural resources. Such dalliance with Mr Putin may create trouble for Mr Wilders, who sees the EU as a monster but is a strong supporter of gay rights. According to Mr de Danne, the Eurosceptic alliance has agreed to co-ordinate only on internal EU matters, not international affairs.

A degree of admiration for Mr Putin also stretches to Britain's UK Independence Party (UKIP). It sees Ms Le Pen and Mr Wilders as too tainted by racism and is parting ways with the Northern League. But UKIP's leader, Nigel Farage, while insisting he dislikes Mr Putin's methods, thinks the Russian leader has skilfully wrong-footed America and Europe. The EU, he declared in a televised debate, "has blood on its hands" for raising Ukraine's hopes of EU membership and provoking Mr Putin. Mr Farage's critique is perhaps a way of attacking the EU's enlargement policy, which is now linked by many to immigration. Yet it is also an implicit admission that the club remains attractive to those outside it.

Hello, Comrade

Mr Putin is too clever to rely only on Europe's insurgent parties, successful as some may be. So as well as cultivating anti-establishment groups, he has worked to entice national elites. While Jobbik advocates closer economic relations with the east, Hungary's prime minister, Viktor Orban, is already doing it. A veteran of the struggle against communism, embodying the catchphrase "Goodbye, Comrade", Mr Orban recently signed a deal with Russia to expand a nuclear-power plant, financed by a €10 billion ($14 billion) Russian loan. He has sought to weaken European sanctions against Russia. In Italy the Northern League's leader, Matteo Salvini, may shout "viva the referendum in Crimea", but Matteo Renzi, the centre-left prime minister, has also been assiduous in resisting tough sanctions.

Anti-EU parties will no doubt become stronger and noisier, but they lack the numbers and the cohesion fundamentally to change EU business in the European Parliament. Their effect will be more subtle. They may force mainstream parties in the parliament into more backroom deals, deepening the EU's democratic deficit. Their agitation is more likely to influence national politics and to push governments into more Eurosceptic positions. And they will provide an echo chamber for Mr Putin, making it harder still for the Europeans to come up with a firm and united response to Mr Putin's military challenge to the post-war order in Europe. There is more at stake in May than a protest vote. ■

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The industrial north

Never walk alone

MANCHESTER

Northern solidarity could give Britain a big economic boost

THE rivalry between Manchester United and Liverpool Football Club is among the oldest and fiercest in football. The teams first met in 1894, when competition between the two cities—30 miles apart—reached fever pitch. That year marked the opening of the Manchester Ship Canal, an effort to bypass Liverpool's bustling port with a direct water route from the Mersey to central Manchester. Over a century later, old enmities continue to divide many of England's northern cities. Such localism is taken for granted in Britain. But it is sapping the competitiveness of the country's industrial heartland.

Trace a rectangle 110 miles long and 90 miles wide, with Blackpool at its northwest corner and Birmingham to the south. The region contained in it has most of the ingredients for a global metropolis. In area and population it is comparable to Greater Chicago—home of corporate headquarters, world-class cultural amenities and soaring towers. Both Chicago and Britain's metropolitan north are former industrial centres that grew rich in the 19th century but fell on hard times in the 20th. Yet their paths have diverged. Real incomes in Chicago are roughly 80% higher than in Britain's ex-industrial core (see chart), according to figures gathered by the Brookings Institution, an American think-tank. And though the fortunes of Britain's cities are improving, the gap in productivity and dynamism between its biggest industrial corridor and those of foreign peers is striking.

Cities thrive or wither on how well they foster connections between people and between firms. In the 19th century, when the cost of moving bulky goods was high, cities were a means to shrink supply chains. Firms crowded around coalfields and each other to cuts costs and boost productivity. But transport costs fell steadily into the 20th century, reducing the need to crowd factories cheek by jowl. Manufacturers instead sought cheap labour, leaving some industrial towns to rot. A new dynamo began to drive urban growth: the speedy flow of knowledge within cities.

The shift has wrong-footed many an industrial city. Those which have managed the transition best have been able to call on a critical mass of skilled workers. Chicago's advantage is obvious; the metropolitan area circles a dense central city. Much of the region is linked by a single transport system and city government. Britain's old manufacturing belt is not so geographically coherent. Yet it lags more sprawling peers as well. The German industrial conurbation that stretches from Dortmund to Cologne is also more productive, despite lacking a defined heart.

Several factors keep what might be called Britain's collective second city underperforming. Poor transport links amplify the distance between the region's hubs. Fewer than 40 miles divide Manchester from Leeds—less than the length of the Piccadilly line on the London Underground. But the rail journey between the two cities takes more than twice as long as that between Reading and London, which covers a similar distance. (The rolling Pennines are not a great obstacle; a canal joined the cities nearly two centuries ago.) A 2009 study by economists at the Spatial Economics Research Centre (SERC) reckoned there was 40% less commuting between Manchester and Leeds than one would expect, given the cities' characteristics.

Divided government is another handicap. Local officials are scattered between myriad town councils, and are more interested in beating neighbouring districts than deepening links with them. The national government periodically tries to solve this—mostly unsuccessfully. The last Labour government introduced agencies tasked with organising development on a regional level but they did little to encourage proper regional governance. The coalition has replaced them with local enterprise partnerships but they are poorly funded and mostly impotent.

Antipathy to regional partnerships, ▸▸

rooted in twists of economic history, is a third obstacle. When the Manchester Ship Canal opened, growth in the region—centred on booming Manchester—threatened to merge swathes of the area into a single economic unit. In 1915 Patrick Geddes, a Scottish polymath, reckoned that Liverpool and Manchester were "fast becoming little more than historic expressions". Yet by the early 1920s population growth in the region had nearly halted. Britain's precocious industrial cities were also the first to stagnate and deindustrialise, as technological leadership swung to America. Decline set in before urban growth submerged strong city identities, and before the north could develop governing institutions with a regional focus. Its cities instead became trapped in an outmoded, Victorian economic geography.

Patchy up north

Parts of the north-west are reviving. Populations are growing again in places. Manchester in particular appears to be thriving. According to the Manchester Independent Economic Review, a mammoth report about the future of the city published in 2009, productivity there is among the highest in Britain outside London. Other research suggests that Manchester is the only area outside the south-east to function as a "human-capital escalator": sucking in young people and boosting their careers. The city's governance is also improving. A new Greater Manchester Combined Authority was formed in 2011, to ensure proper co-operation between ten different local authorities.

Yet to narrow the gap with London, Greater Manchester will have to grow greater still. Better integration with neighbouring hubs could stem the southward leak of talent. Mancunian imperialism is happening—slowly. The economic boundary between Manchester and Liverpool looks increasingly porous. A big new port development along the Manchester Ship Canal will deepen links between them—provided local politicians stay the course.

More ambition would help, as would sensible public investment. According to the SERC report, a 20-minute reduction in travel time between Manchester and Leeds could add £6.7 billion to the economy of the north of England. Faster travel times to London could add half as much again to both cities' economies, while boosting the fortunes of cities along the route. The best hope for Britain's industrial heartland might be integration within a single metropolitan corridor stretching from the south-east to Preston.

Off the football pitch, that will mean co-operating. But if deepened ties raised productivity across all northern cities to Mancunian levels, British output could rise nearly £50 billion a year. That is a derby from which everyone would win. ■

Recruiting priests

Revving up

More young Britons are joining the priesthood

AT A recent school careers fair, one stall stood apart. Its attendant touted a job that involves 60-hour weeks, including weekends, and pays £24,000 ($40,000) a year. Despite her unpromising pitch, the young vicar drew a crowd.

God's work is growing more difficult. Attendance on Sundays is falling; church coffers are emptying. Yet more young Britons are choosing to be priests. In 2013 the Church of England started training 113 20-somethings—the most for two decades (although still too few to replace retirees). The number of new trainees for the Roman Catholic priesthood in England and Wales has almost doubled since 2003, with 63 starting in 2012, and their average age has fallen.

Church recruiters have fought hard for this. Plummeting numbers of budding Catholic priests in the 1990s underlined the need for a new approach, says Christopher Jamison, a senior monk. The Church of England used to favour applicants with a few years' experience in other professions. Now it sees that "youth and vitality are huge assets", says Liz Boughton, who works for the church.

Cynics suggest the recession may have aided these efforts, by making other graduate jobs more difficult to get. And the prospect of free accommodation is not to be sniffed at. Yet youngsters say the work has become more appealing. One reason is that a steady exodus of middle-class churchgoers has left smaller but more committed and vibrant flocks. "Nowhere else will you find local Nigerian matriarchs, gay students, bankers and mentally ill people forming friendships over fried chicken and rum punch," says Mark Williams, a young vicar in London.

Urban ministry appeals particularly to the idealistic young. It may involve running projects for homeless people and giving advice to refugees. ("Rev", a television comedy about a fictional vicar in east London, has helped raise the profile of such work.) Whereas past generations saw the priesthood as a shortcut into the establishment, many of today's youngsters take pride in its shift to the margins of society. "The church is most attractive when it ceases to obsess about its status as a national institution," says Sam Dennis, a 29-year-old curate in Catford. He sees the ministry as a "distinctive alternative" for people disillusioned with how much of modern Britain is run.

Not all today's trainee priests will land in flourishing inner-city churches. Some are bound for country parishes, of which a greater proportion are moribund. And all but the most charitable priests tire of keeping open house for pushy parishioners and local vagrants (families can feel like public property, says a curate). Lots of young priests also resent their seniors' foot-dragging on gay rights. But a government survey published in March found clergy happier than members of any other profession. Money can't buy that. ■

More conga than wonga for the clergy

Bagehot | The hated body politic

The problem with British MPs is not that they are too rowdy, but that they are too tame

SPRING is here and the sap in British politicians appears to be rising. Last week a prominent Conservative MP, the former deputy-speaker of the House of Commons, Nigel Evans, was acquitted of raping a junior parliamentary researcher; he admitted getting drunk and having sex with a man less than half his age. Allegations of MPs boozing and cavorting on the public purse have since proliferated. A television news programme suggests a third of parliamentary staff have experienced sexual harassment; a tabloid newspaper claims gay orgies occurred at a recent Conservative Party conference. Anyone would think MPs had all the fun.

That is not Bagehot's impression of "Sexminster", as Parliament has been renamed by the media. Its once-sodden culture, a product of lots of cheap booze and idle men hanging around late to vote, is much drier. More women MPs, fewer late nights and the usual vicissitudes of modernity have put paid to the excesses; most MPs are hardworking, anxiously careerist and mildly health conscious. Their once-storied licentiousness—highlighted by the Labour giant Roy Jenkins' habit of sleeping with Tory and Liberal wives—has been similarly pegged back. Investigations last year into an alleged Westminster sex pest, Lord Rennard, suggest there is no plague of sexual predation in Parliament. They found the portly Liberal Democrat peer had, at worst, "violated the personal space" of his accusers. In short, though Parliament is still too male and boozy for some people's tastes, it is probably cleaner-living and more upstanding than it has ever been.

Exaggerated reports of political Bacchanalia are a proxy for a broader loathing of politicians. The long-running fury over MPs' excessive expenses claims, which cost the Tory culture secretary, Maria Miller, her job last week, is similarly more a symptom of this than a cause. Unhappily for the Tory prime minister, David Cameron, who has promised new vigilance against his fellows' alleged improprieties, it is also harder to mitigate—not least because it is a global phenomenon. Surveys by Edelman, a public-relations firm, suggest 20% of French and 18% of Spaniards trust their government; in Britain, 42% do. Yet that is a poor rating for a country spared the euro crisis and with a history, unlike America, of acquiescence to power. It is no reason not to try to improve British politicians' standing—and polling by YouGov suggests how.

Asked to choose from a list of possible disqualifications for political office, few Britons picked closet homosexuality, extramarital affairs or, for that matter, posing naked for a magazine. That helps explain why two of Britain's more scandal-prone politicians, the Tory mayor of London, Boris Johnson, and leader of the UK Independence Party Nigel Farage (in terms of sex, not so much naked photos) are also among the most popular. Far more objectionable to Britons is any symptom of belonging to a gilded elite—above all, never having worked outside politics. That is bad news for Mr Cameron, his right hand George Osborne and most of their rivals, including the Labour Party's leader Ed Miliband and Lib Dems' Nick Clegg. None has done much except politick.

The professionalisation of British politics is hardly unique. Most professions have undergone a similar formalisation in recent decades, in response to meritocracy, and because people who commit to a single trade tend to do it well. Jenkins, Denis Healey and Margaret Thatcher, to name three post-war political giants, all did little work before politics. Yet these were substantial people, steeled by the experience of war—Mr Healey gave his first big political speech in uniform—and defined by the great ideological battle, between left and right, of their time. Shorn of that epic context, never forced to fight and raked by a hostile press, today's politicians are inevitably diminished. It is the political context, more than politicians, that has changed. Yet they are also agents of their diminution—as the current lot show.

Having grown up in politics, Mr Cameron and Mr Osborne seem incapable of thinking beyond it. Thus the tricksiness of their policies—the token cap on welfare spending, designed to embarrass Labour; the chimeric tax cuts, which leave few people better off. If this approach achieves short-term political hits, it does not tell sceptical voters they are led by high-minded people.

And this damaging fixation with tradecraft is self-perpetuating—because the Tory leaders, even more than their rivals, promote colleagues with a similar approach. Mr Osborne has built a network of such protégées—he calls them "the club"—including Matthew Hancock, Nicky Morgan and Sajid Javid, Ms Miller's successor. Derided by jealous colleagues as lackeys, these rising stars are equally defined by their Osborne-ite view of politics as a game clever people play. More obviously talented, yet less biddable, Tories—including Rory Stewart, Margot James and Nadhim Zahawi—languish outside the club. That is self-defeating. To enthuse voters, party leaders need to promote engaging representatives. The fact that Britain's few charismatic politicians—Mr Johnson, Mr Farage and the Scottish nationalist leader Alex Salmond—are outside Parliament is symptomatic of this failure.

Dare to embarrass yourself

Politicians also need to be bolder in what they say. Their response to 24-hour news, which is to minimise the risk of contravening party lines by say nothing interesting, has proved a reputational disaster. Witness the response to Mr Miliband giving an identical answer—"the government has acted in a reckless and provocative manner"—to a sequence of five different questions. He was castigated as "Robo-Ed". He looked idiotic. He did more damage to his image than he would have risked by straying off-grid.

The risks of promoting awkward talent and sacking the spin doctor are obvious; Mr Johnson and Mr Farage illustrate them with their mishaps and scandals, almost on a monthly basis. But the alternative to a looser, bolder and more outward-looking politics, as voter turnout falls and fringe groups rise, is worse. It is to become ever more ingenious, hated and irrelevant. ■

Chinese tourists

Coming to a beach near you

How the growing Chinese middle class is changing the global tourism industry

WEN ZHONG is doing what his parents could only dream of: taking a two-week tour of Europe. The 28-year-old from Shanghai has already been to France ("very beautiful") and the Netherlands ("very good English"). He is now flying from Schiphol airport in Amsterdam to his final stop, Finland, where he hopes to see the Northern Lights ("very exclusive"). Mr Wen is typical of a new wave of Chinese tourists: young, affluent and travelling independently, rather than on a "20-cities-in ten-days" bus tour like those that brought his predecessors. Such tours still appeal to most Chinese tourists on their first trip further afield than Hong Kong, Macau or Taiwan. But a third are now organising their own travel, spending more and staying longer in each of their destinations.

Nearly one in ten international tourists worldwide is now Chinese, with 97.3m outward-bound journeys from the country last year, of which around half were for leisure. Chinese tourists spend most in total ($129 billion in 2013, followed by Americans at $86 billion) and per tax-free transaction ($1,130 compared with $494 by Russians). More than 80% say that shopping is vital to their plans, compared with 56% of Middle Eastern tourists and 48% of Russians. They are expected to buy more luxury goods next year while abroad than tourists from all other countries combined.

The dizzying pace of growth is expected to continue. Only around 5% of China's population now own passports, and most of those who travel go to Hong Kong or Macau. But increased affluence, a trend towards longer holidays, fewer visa conditions and growing numbers of repeat travellers mean that every year more will take foreign trips, and more will venture farther. By 2020 the number of foreign trips made from China will double, predicts Aaron Fischer of CLSA, an investment firm, and spending by Chinese tourists abroad will triple. The world should brace itself, says Wolfgang Arlt of the China Outbound Tourism Research Institute, to receive 100m aspiring Chinese keen for "their turn to see the Mona Lisa" and shop in big-brand stores, and 50m more experienced travellers keen to move beyond the tick-box attractions.

Going places
Spending on outbound tourism, $bn
Source: World Tourism Organisation (UNWTO)

Shops, hotels and other tourist businesses are scrambling to profit from the new arrivals. Schiphol, which has direct flights to seven Chinese cities, hands out presents in the arrivals hall around Chinese New Year and has a free translation app to point Chinese travellers to its luxury shops, all of which accept Chinese currency and Union Pay (China's main credit card). Benno Leeser, the boss of Gassan Diamonds, a Dutch jewellery chain with 14 outlets in the airport, travels to China every year to schmooze with the travel agents who bring him his best customers.

New destinations are trying to work out how to get themselves on the itinerary. After direct airline connections, the next step is to make getting a visa easier or, better still, to bring in a visa-waiver scheme. In 2013 Chinese citizens could visit just 44 other countries without a pre-arranged visa; Taiwanese citizens could visit 130, and Americans and Britons over 170. In 2010 the European Tour Operators Association found that a quarter of Chinese who had hoped to visit Europe for leisure had abandoned their plans because of visa delays. Britain, which is outside the European Schengen free-travel area, requires its own visa—the main reason it gets just a ninth of the Chinese tourists France does.

America has started to interview Chinese visa-applicants online and allows them to pick up their visas at any of 900 bank branches, rather than the American embassy. It saw a 22% increase in Chinese visitors last year. But places with visa-waiver schemes, like the Maldives, are really thriving: last year the number of Chinese visitors to the islands increased by 45% and reached nearly a third of the 1.1m total. A boom in Chinese honeymoons helps. Beach resorts are also popular with ▸▸

"6+1s"—young couples travelling with one child and two sets of parents. Parents and children do adventure activities; grandparents, who are less likely to speak English, go to evening shows and cannot get lost.

The next step is to tailor language, products and services to the Chinese market. Printemps, a shop in Paris, has a dedicated entrance for Chinese tour groups; Harrods in London has 100 Union Pay terminals scattered throughout the store. Both are recruiting Mandarin-speaking staff and have Chinese-language websites and maps. Hotels increase their appeal by offering Chinese television channels, menus with pictures, and congee (Chinese porridge) for breakfast. Such details are seen as a sign of respect. The main consideration of Chinese tourists when choosing a place to visit, says Mr Arlt, is whether it tries to welcome them. "They are very afraid of being treated as second-class."

Products or trips marketed as "authentic", "limited edition" or "VIP" have always appealed to the Chinese. That used to mean shopping for luxury brands and taking snapshots at landmarks, says Roy Graff of China Edge, a consultancy. Now that these are more commonplace, it stretches to polar expeditions, cruises and safaris. Switzerland has done well by appealing to the Chinese longing for blue skies and clean air. Canadian ski resorts are training Chinese instructors to help attract their share of the 5m-10m Chinese practising the sport—up from just 10,000 in 1996.

Appealing to the new Chinese horde means tapping into their love of a good romantic tale, says John Kester of the UN World Tourism Organisation. Thailand saw the number of Chinese visitors triple after a blockbuster film, "Lost in Thailand", inspired a generation to come and sample Thai beer. Mauritius is hoping that "Five Minutes to Tomorrow", a romance due out later this year featuring Liu Shishi, a popular actress, and partly filmed on the island, will bring it a similar bonanza.

The toughest step is getting noticed by Chinese would-be travellers, says Frank Budde of the Boston Consulting Group and co-author of "Winning the Next Billion Asian Travellers". Nearly half of China's population is now online, and two-thirds of those planning to travel use online material when preparing their itinerary. Since they use different search engines and social-media platforms from everywhere else, success largely depends on being blogged about on these platforms. Here, destinations can make their own luck. Tourism New Zealand's decision to host the fairy-tale wedding of Yao Chen, an actress with 66m followers on Weibo, China's equivalent of Twitter, in Queenstown in 2012 was rewarded with 40m posts and comments on discussion forums, 7,000 news articles—and a surge in interest from Chinese lovebirds. ■

The abuse of migrants

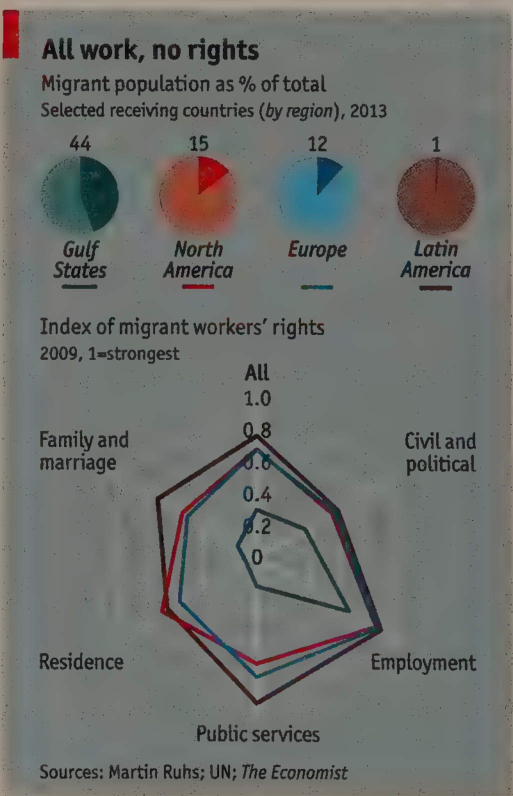
And still they come

Balancing the interests of migrant workers and the countries they live in

WHAT government would tolerate its citizens' passports being confiscated, their earnings being withheld and their deaths being covered up? Nepal's, it seems. In September reports of the abuse of Nepalese migrants working on stadiums for the 2022 football World Cup in Qatar, and the deaths of at least 44 of them, appeared in the *Guardian*, a British newspaper. The Nepalese government's first response was to recall its ambassador to Qatar: the *Guardian* had quoted her describing the Gulf state as an "open jail". Shortly afterwards, Nepalese and Qatari officials held a joint press conference in Doha at which they insisted Nepalese workers were "safe and fully respected". Reports to the contrary were false and driven by "inappropriate targets and agendas".

According to Martin Ruhs of Oxford University, the Nepalese government's apparent lack of concern can be explained by looking at the interests of those involved. For all the mistreatment, Nepalese workers earn far more in Qatar than they could at home. Remittances make up a quarter of Nepalese GDP. If the Nepalese government were to insist that rules protecting migrant workers in Qatar should be enforced, Qatari employers might look for workers elsewhere.

Mr Ruhs has drawn up an index of migrant rights (see chart): he finds that countries with more rights for migrant workers tend to be less keen on admitting new ones. In the Gulf states and Singapore, where migrants have few rights on paper, the foreign workforce is huge: 94% of workers in Qatar were born abroad. Sweden and Norway, where migrants can use public services, claim welfare benefits and bring in dependents, admit relatively few purely economic migrants.



This trade-off is visible even within the European Union, where the recent accession of 12 relatively poor eastern European countries has sparked a debate about migrants' rights to welfare. In January David Cameron, Britain's prime minister, clashed with his Oxford contemporary, Radek Sikorski, Poland's foreign minister. Mr Cameron wants to be able to exclude recently arrived European immigrants from welfare and public housing. "If Britain gets our taxpayers, shouldn't it also pay their benefits?" Mr Sikorski responded.

In Europe the debate is multilateral; Mr Cameron intends to promote his point of view as part of a package to reform the EU's single labour market. Elsewhere the movement of people is increasingly regulated by bilateral agreements and diplomacy. Since a diaspora can help poor countries develop, sending states must try to protect the rights of migrant workers without making them such a burden as to be unwelcome, points out David McKenzie of the World Bank. Receiving countries weigh their national interests, real or perceived, against international obligations.

The calculations vary from country to country. Some sending countries, such as the Philippines, come down on the side of stronger rights: Filipinos must be offered a high wage to be allowed to leave for a job, and their government sends envoys and inspectors to the main receiving countries. Others, like Nepal, are lax. Amnesty International, an NGO, is almost as critical of its government's tolerance of dodgy recruitment agencies and exploitative brokers as it is of Qatari employers.

A UN convention on migrant workers' rights which came into force in 2003 has been ratified by only 47 countries, most of which are net senders of migrants. It is largely unenforced. A weaker treaty covering just the basics might do more good, argues Mr Ruhs, since the rich countries most migrants move to might sign it, and help to crack down on the worst abuses in places such as Qatar. ■

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Coal

The fuel of the future, unfortunately

A cheap, ubiquitous and flexible fuel, with just one problem

WHAT more could one want? It is cheap and simple to extract, ship and burn. It is abundant: proven reserves amount to 109 years of current consumption, reckons BP, a British energy giant. They are mostly in politically stable places. There is a wide choice of dependable sellers, such as BHP Billiton (Anglo-Australian), Glencore (Anglo-Swiss), Peabody Energy and Arch Coal (both American).

Other fuels are beset by state interference and cartels, but in this industry consumers—in heating, power generation and metallurgy—are firmly in charge, keeping prices low. Just as this wonder-fuel once powered the industrial revolution, it now offers the best chance for poor countries wanting to get rich.

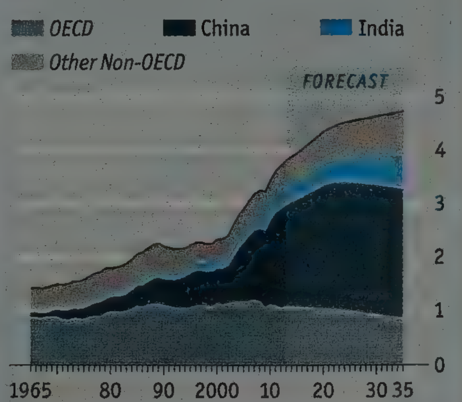
Such arguments are the basis of a new PR campaign launched by Peabody, the world's largest private coal company (which unlike some rivals is profitable, thanks to its low-cost Australian mines). And coal would indeed be a boon, were it not for one small problem: it is devastatingly dirty. Mining, transport, storage and burning are fraught with mess, as well as danger. Deep mines put workers in intolerably filthy and dangerous conditions. But opencast mining, now the source of much of the world's coal, rips away topsoil and gobbles water. Transporting coal brings a host of environmental problems.

The increased emissions of carbon dioxide from soaring coal consumption threaten to fry the planet, as the Intergovernmental Panel on Climate Change reminded everyone in a new report this week (see page 73). The CO_2 makes the oceans acid; burning coal also produces sulphur dioxide, which makes buildings crumble and lungs sting, and other toxic chemicals. By some counts, coal-fired power stations emit more radioactivity than nuclear ones. They release tiny, lethal particulates. Per unit generated, coal-fired stations cause far more deaths than nuclear ones, and more even than oil-fired ones.

But poverty kills people too, and slow growth can cost politicians their jobs. Two decades of environmental worries are proving only a marginal constraint on the global coal industry. Some are trying to get out: in America Consol Energy is selling five mines in West Virginia to concentrate on shale gas. Big coal-burners such as American Electric Power and Duke Energy are shutting coal-fired plants. Yet despite America's shale-gas boom, the federal Energy Information Administration reckons that by 2040 the country will still be generating 22% of its electricity from coal (compared with 26% now). The International Energy Agency has even predicted that, barring policy changes, coal may rival oil in importance by 2017. As countries get richer they tend to look for alternatives—China is scrambling to curb its rising consumption. But others, such as India and Africa, are set to take up the slack (see chart).

King Coal, long to rule over us

Coal consumption by region, toe* bn



Source: BP *Tonnes of oil equivalent

America's gas boom has prompted its coal miners to seek new export markets, sending prices plunging on world markets. So long as consumers do not pay for coal's horrible side-effects, that makes it irresistibly cheap. In Germany power from coal now costs half the price of watts from a gas-fired power station. It is a paradox that coal is booming in a country that in other respects is the greenest in Europe. Its production of power from cheap, dirty brown coal (lignite) is now at 162 billion kilowatt hours, the highest since the days of the decrepit East Germany.

Japan, too, is turning to coal in the wake of the Fukushima nuclear disaster. On April 11th the government approved a new energy plan entrenching its role as a long-term electricity source.

International coal companies face two worries. One is that governments may eventually impose punitive levies, tariffs and restrictions on their mucky product. The other is the global glut. Prices for ther- ▸▸

mal coal (the kind used for power and heating) are at $80-85 a tonne, which barely covers the cost of capital. Some Australian producers are even mining at a loss, having signed freight contracts with railways and ports that make them pay for capacity whether they use it or not.

One answer to that is cost-cutting and efficiency, much stressed by companies such as BHP Billiton. Unlike oil and gas, coal is geologically simple and does not require a costly array of drills, platforms and pipes. If the price is too low, companies can decide to stop production and await better times. But thriftiness with capital has its limits: the cost of mining is going up, as the easiest coal seams are worked out.

Some companies have tried to switch efforts to "met" (metallurgical) coal, which fuels smelters. This was thought to be scarcer and more profitable. But that theory has suffered. Supplies of met coal have proved more abundant than expected.

Perhaps the biggest hope for all involved in the coal industry is technology. Mining and transporting coal will always be messy, but this could be overlooked were it burned cheaply and cleanly. Promising technologies abound: pulverising coal, extracting gas from it, scrubbing emissions and capturing the CO_2. But none of these seems scalable in the way needed to dent the colossal damage done by coal. And all require large subsidies—from consumers, shareholders or taxpayers.

A $5.2 billion taxpayer-supported clean-coal plant in Mississippi incorporates all the latest technology. But at $6,800 per kilowatt, it will be the costliest power plant yet built (a gas-fired power station in America costs $1,000 per kW). At those prices, coal is going to stay dirty. ■

Business in Russia

From bad to worse

MOSCOW

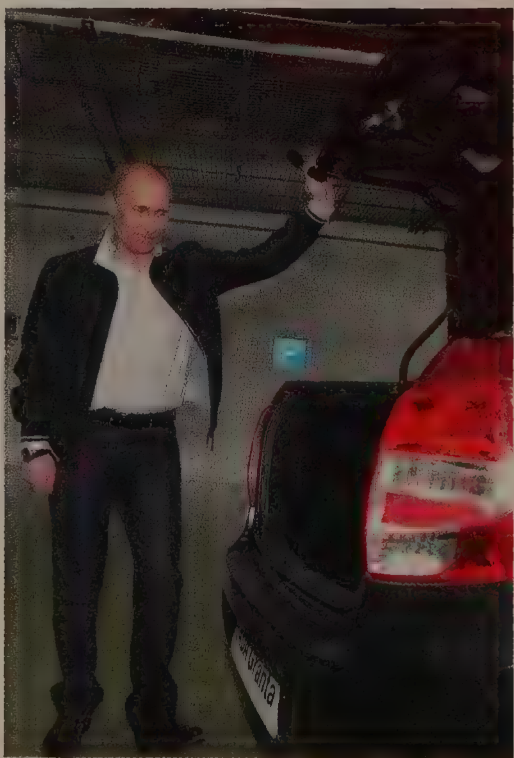
Domestic and foreign firms wonder how serious things might get

BEFORE the current standoff between the Kremlin and the West over Ukraine, it was already clear that Russia's economic model, of strong energy exports fuelling domestic consumption, was running out of steam. In 2007, on the eve of the global financial crisis, Russia's economy grew by 8.5%. Last year growth was a meagre 1.3%.

Still, the country's population of 144m, its entry into the World Trade Organisation, its consumers' aspiration to a Western lifestyle and its status as the "R" in the BRICs have persuaded multinationals to keep investing in plants in Russia, and foreign investors to keep providing capital to Russian firms. The attitude until recently, says Alexis Rodzianko of the American Chamber of Commerce in Moscow, was that "Russia's economy may be slowing, but my own prospects are pretty good."

Now the outlook for businesses there is looking gloomier. With pro-Russian separatists seizing government buildings in eastern Ukraine, amid talk of a full-scale invasion, firms of all kinds fear a tightening of American-led sanctions, a cut-off of foreign lending and investment, and a further fall in consumers' confidence.

The most immediate concern, especially for Western firms doing business in and with Russia, is the curbs the United States and the European Union have imposed on dealings with certain individuals. Even the somewhat stronger American sanctions imposed so far are, on paper, "pretty limited", says Alexander Kliment of Eurasia



My other car is not a Lada

Group, a risk-analysis firm. But they have created a "scare factor" that is magnifying their effect. For example, shares in Novatek, a gas producer, fell sharply when the restrictions were announced, on fears it might struggle to do deals with foreign partners or raise capital abroad because Gennady Timchenko, a friend of Vladimir Putin's named on the American sanctions list, owns 23% of the company and sits on its board. If Igor Sechin, the boss of Rosneft, another energy firm, is sanctioned, the effect may be similar.

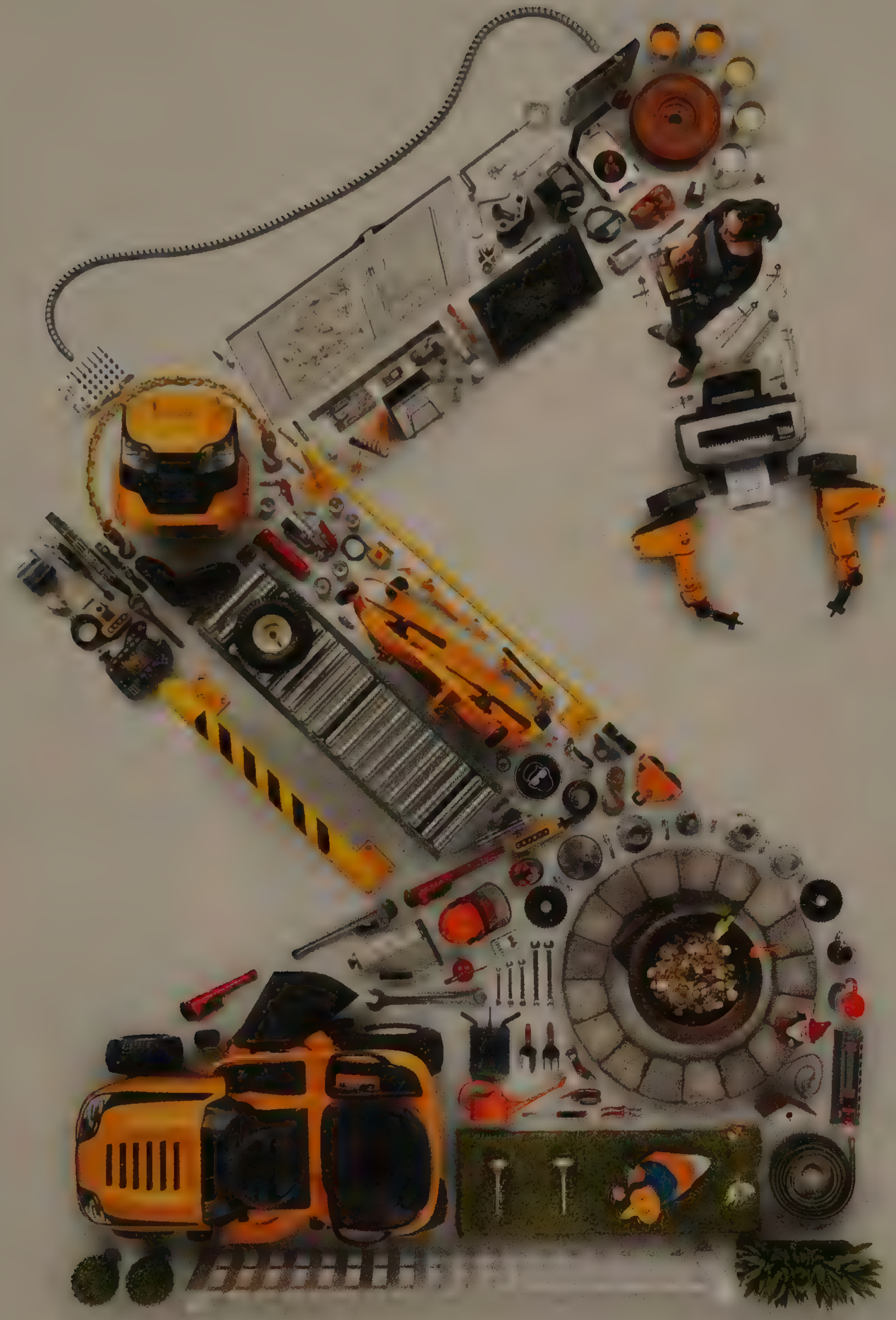
Foreign firms fret that sanctions could also create openings for competitors. American firms worry that the EU's softer curbs may give its companies more flexibility. The boss of Siemens, a German engineering giant, met Mr Putin in Moscow last month. Americans and Europeans alike worry about losing out to Asian rivals. Moscow business circles are full of rumours of Chinese executives trying to peel off contracts by urging Russian companies not to depend on Western ones, given the possibility of further trading restrictions.

Russian firms and politicians, in turn, are casting around Asia and elsewhere for new customers to replace those they fear losing from the West. Russia's deputy prime minister, Arkady Dvorkovich, said this week that the government hoped to finalise soon a long-promised deal for Gazprom to sell gas to China. Rosneft is seeking to treble its exports of oil to China. Sukhoi, a state-owned aircraft-maker, has just struck a deal to sell a fleet of small passenger jets to a Chinese airline, hoping this will offset any loss of orders from Western carriers. But its plane, the Superjet, is chock full of key parts from American and European suppliers, and thus its production is vulnerable to any tightening of sanctions.

For domestic firms, a bigger worry than the sanctions imposed so far is the risk of losing access to foreign loans, and what that will mean for investment, productivity and growth, says Elena Anankina of Standard & Poor's, a ratings agency. Western lenders are likely to honour existing loan deals. But they may be reluctant to provide fresh financing. Rusal, an indebted aluminium producer, is among the Russian firms most exposed to this. Some state banks, such as Sberbank and VTB, have indicated they are ready to fill the gap left by Western lenders. But Ms Anankina wonders how long they will be able to do so. Indeed, some Russian banks themselves depend on Western loans. With capital flight hitting $60-70 billion in the first quarter of this year alone, investment in domestic production—what the spluttering economy needs most of all—will be even harder to come by.

The fallout from Russia's annexation of Crimea and further stoking of unrest in eastern Ukraine has put downward pressure on an already weakening rouble. On its face, a cheaper currency should be a boon to domestic producers. Visiting Moscow this month, Carlos Ghosn, the boss of Renault-Nissan, a global carmaker which is buying control of AvtoVAZ, the maker of Lada cars, argued that the weak currency will be "an advantage for local brands".

But thinking that a "weak rouble is the way forward" is the "wrong paradigm," argues Yaroslav Lissovolik of Deutsche Bank. ▶▶



Many Russian manufacturers, like Sukhoi, depend on imports for inputs and equipment. And in any case, many are running near full capacity and will be unable to grab market share from foreign rivals without money to invest in increasing output.

This confluence of economic bad news will hit a few industries first and hardest: consumer goods, construction, property and banking. Demand for the roughly half of Russian steel that goes to building projects at home will drop. Car sales, dependent on the availability of bank loans, will probably fall. Already a softening market has led Ford to consider cutting production at its joint venture with Sollers, a Russian firm. Even a continuation of the current stand-off between the Kremlin and the West would be bad enough for business. But things may well get far worse. ■

Technology firms

Status shift

SAN FRANCISCO

Investors have unfriended some high-tech stars

GOOGLE splashed out an undisclosed sum of money on April 14th to buy Titan Aerospace, whose solar-powered drones it plans to use to help deliver wireless internet access to remote parts of the world. Like Google's new drones, which can reach impressive heights, tech shares soared in the early part of this year. Then in March a sell-off began that battered the stocks of many Silicon Valley stars. The tech-heavy NASDAQ stockmarket index steadied somewhat early this week, and shares in older tech firms like HP and IBM, which are traded on the main market, have done well. But investors and companies are still jittery.

Those worried that a new internet bubble pumped up by wild dreams and unabashed greed is now deflating will be watching closely to see whether tech firms' latest results give further cause for alarm. On April 15th Yahoo published its quarterly earnings, which showed a tiny increase in revenue after excluding the cost of fees paid to its partner websites. Its shares rose on the news. Google was due to report its results the next day, after *The Economist* went to press.

It is not just web firms whose performance is under the microscope. Shares in biotech companies, which adapt and exploit processes found in living organisms to create drugs and other useful products, have also taken a beating. Having risen by 60% last year, the NASDAQ biotech index has fallen by 18% since the middle of March. On April 4th alone investors pulled $372m out of the multi-billion-dollar iShares NASDAQ Biotechnology exchange-traded fund—the biggest one-day withdrawal since the fund's creation in 2001.

Other firms developing novel technologies have suffered sagging share prices, too. Tesla Motors, whose snazzy electric vehicles are a must-have in Silicon Valley, had a 350% run-up in its shares last year. This year they kept rising, reaching $240 in mid-March, by which time the market capitalisation of Tesla, which sold only 23,000 cars last year, was more than half that of GM, which sold almost 10m. They then started to slip, and on April 15th they closed at $194, as investors continued to debate the wisdom of the firm's plans to invest $5 billion in a huge battery-making factory.

The shares of social-media companies have been especially badly hit, faring worse than both the NASDAQ and the broader S&P 500 index (see chart). This partly reflects concern over their ability to keep growing. Twitter has seen its share price fall from a high of just over $73 in December to around $46, as investors have fretted about falling advertising rates and levels of user engagement at the firm.

Say you want a revolution

Questions have also been raised about Facebook's ability to keep growing strongly. "Social networks promised marketers a revolution, but what they have delivered is just boring traditional ads," argues Nate Elliott of Forrester, a research outfit. That judgment may be a little harsh, but Facebook is certainly casting around for new sources of revenue. Among other things, it is trying to become a "Facebank" that offers services such as electronic money and international payments: it was reported this week that the firm was seeking a licence for such activities in Ireland.

Techno-droop
January 1st 2014=100

Source: Bloomberg

Shares in some Asian web companies, such as Tencent of China, have fallen, too. But the news is not all bad. Yahoo, which has a stake in Alibaba, a giant e-commerce company, reported that the Chinese firm's revenue soared in the last quarter of 2013. Alibaba is planning to list its shares in America this year.

There are plenty of other tech firms queuing to stage an IPO. Those looking for evidence of a bubble should keep an eye on upcoming listings for firms such as Box, a business founded in 2005 that has made a name for itself in online file-sharing and storage. Like Twitter it has significant revenues, but is not yet in profit. They should also keep a close eye on venture capitalists. American funds raised almost $9 billion in the first quarter of the year, the most since the last quarter of 2007. But plenty of venture money is now pouring into me-too firms and deals with crazy price tags. Recent events may have taken some air out of a tech bubble in the public markets, but financiers are still busy pumping one up behind the scenes. ■

Business aviation

Fasten seat belts

SHANGHAI

A potentially huge market for corporate jets is opening up in China

IT IS hard to think of a product for which China is as promising a market as it is for business jets. The country is vast, and far from its main trading partners. Its huge economy is churning out new billionaires. But the number of corporate jets in China—fewer than 400—is smaller than in lesser emerging markets like Brazil and Mexico. It is even smaller, reckons Jeffrey Lowe of Asian Sky Group, a consultant, than the number found just at Orange County airport in California.

And yet the mood was upbeat this week at a big industry gathering at Hongqiao airport in Shanghai. The government, long the biggest obstacle to growth, is changing its attitude. Until now over-regulation has made importing jets costly, training local pilots complex and filing flight plans cumbersome. Officials have repeatedly talked of slapping a luxury tax on the purchase of new jets, on top of existing onerous duties and taxes. At Beijing's main airport, business jets get only two take-off slots an hour.

An anti-corruption drive by the newish government of President Xi Jinping has led ▸▸

state-owned enterprises (SOEs) to shun jets. An aviation-industry veteran says SOE executives once made up perhaps 15% of the local jet-leasing market before the crackdown, but that figure today is 5%.

Still, the government now seems ready to unleash business aviation's potential. It is promising to build 10-15 new airports a year. China has fewer than 400 airports for civil use today, whereas small jets can land at 18,000 fields across America. The latest official five-year plan explicitly promotes the development of non-airline aviation and calls for reforms to improve the efficiency and allocation of air space. This matters, because China's air force blocks an inordinately large amount of it.

The armed forces have recently given up some big blocks of air space they had previously reserved for training, and handed over about a dozen military airfields for civil aviation. In half a dozen local trials, regulators are allowing paperwork-free flights at low altitudes. Faku, a county near Shenyang, the capital of Liaoning province, is one of these experimental zones aspiring to become a "light-air capital", with 1,000 small planes within five years.

Edward Bolen of the National Business Aviation Association, an American industry group that organised this week's conference, observes that Faku's experiment points to an important difference in the way the business is developing in China. The rise of business aviation in the West started with a proliferation of small planes, typically propeller-driven, and only later moved on to bigger, jet-powered craft. Since it first started in China in 2003, the industry has been dominated by big jets costing tens of millions of dollars; the swarm of smaller turboprops buzzing over Faku is a new phenomenon.

That suits Scott Neal of Gulfstream, an American manufacturer of big business jets. His firm has sold over 100 in China, many of them top-end models, and holds the biggest market share. The mainland's private-jet fleet has more than doubled in the past three years, and grew by roughly a fifth last year. Bombardier, a Canadian builder of business jets, forecasts that from 2013 to 2032 Chinese customers will take delivery of more than 2,400 of them.

A sign of the market's maturation is the shift away from buying only new jets. Locals used to turn up their noses at used planes, but now sales of "gently pre-owned" jets make up nearly half of the total. A number of new charter operators are setting up shop. NetJets, a firm partly owned by America's Berkshire Hathaway that offers fractional ownership of jets, is about to dip its toes into the market. On April 15th Gulfstream and Minsheng Financial Leasing, the aviation-finance arm of a Chinese bank, trumpeted a deal to ship 60 new corporate jets to China—one of the biggest deals yet seen worldwide.

Nope, not big enough

There is another sign of rising sophistication. Jason Liao of China Business Aviation Group, another consultant, says that when the market opened in 2003, buyers were chiefly fat cats: they bought the biggest and blingiest jets, often plonking down cash, but flew them only rarely, to impress friends. Now, the chief buyers are private companies, typically using financing or leasing schemes, and utilisation rates are soaring as the jets are put to business use. This is a market that looks, at long last, set for take-off. ■

Peugeot's revival plan

Striving for the podium

PARIS

A new boss seeks profits by making a narrower range of pricier cars

THE Peugeot group (PSA) won the Marrakech World Touring Car Championship on April 13th, with Citroën C-Elysées coming first, second and third. That cheered its new boss. Carlos Tavares, a racing fanatic, joined Peugeot's archrival, Renault, as a test driver in 1981, rising to become that company's number two before taking the wheel at PSA on March 31st. He now wants to see his new company enjoying the same success financially as it has had on the racetrack.

The second-largest European carmaker, in volume terms, is struggling to escape from losses topping €7 billion ($9.7 billion) in the past two years. A €3 billion capital increase agreed on in principle in March, which hands both Dongfeng, a Chinese carmaker, and the French state 14% stakes in exchange for €800m apiece, will help PSA secure its future. On April 14th Mr Tavares set out how he proposed doing it.

Mr Tavares is seen by many as the first genuine "car guy" to run PSA for some time. His real forte may be on the numbers side, however. "Back in the Race", as his recovery plan is called, has four broad goals but one overwhelming message: forget about volume and market share, focus on profits and cashflow. The first aim is to distinguish more clearly Peugeot's high-end family cars from Citroën's cheaper, trendy ones, pulling out Citroën's DS range as a stand-alone premium brand. The idea is to reduce the percentage price gap between PSA cars and their best-in-class rivals, which runs to double digits in some cases.

The second is to concentrate on global winners, dropping niche models. The number of models will fall from 45 to 26 by 2022 and seven production platforms will become two. The third is making worldwide operations profitable. PSA thinks car sales will grow by 38% globally between now and 2022 but by just 20% in Europe, where it now makes almost three-fifths of its sales. Riding this wave means above all that PSA must follow its rivals and expand in China, already its second market. The BRICS have proved challenging: Mr Tavares aims to break even in Russia and Latin America in 2017 but it is a tall order.

The fourth target is the whopper: improving competitiveness. PSA has to sell 2.6m cars outside China to break even and wants to lower this to 2m (in 2013 it actually sold 2.3m). That means reducing costs—wages will fall from 15.1% of revenues to less than 12.5% in 2016, for example—and managing cash, suppliers and stock better.

Mr Tavares expects to make profits in 2018, with operating margins at the core carmaking business of 2%, rising to 5% by 2023. Analysts were dismayed by such timid targets and PSA's shares, having revived recently, slipped a bit.

PSA is already on an upward swing financially. Sales are looking brighter as the European market recovers. Peugeot's 308 hatchback won the European Car of the Year award; extra shifts are being laid on to produce more of them, and of the new 2008 mini-SUV. Much of the hard cost-cutting has already been agreed on: a plant near Paris was closed last year and a job-shedding contract negotiated.

The motor industry is studded with stories of ailing firms whose fortunes were revived. One is particularly relevant. Nissan was a sad case when Renault took a stake in 1999 and whipped it into shape, closing plants and cutting costs. Mr Tavares spent seven years at Nissan, in Japan and in America. He knows how to end up on the winners' podium. ■

Business in the UAE

Improving the desert climate

DUBAI

A draft companies law in the emirates is a bit disappointing

FOREIGN investment is flooding back, the malls are filling with shoppers and deals are being struck: business in the United Arab Emirates is booming once again. The IMF this month upgraded its forecast for the emirates' economic growth in 2014 from 3.9% to 4.4%.

As memories of the crisis recede, companies are remembering the reasons that make the emirates attractive. The high income of the population, 84% of whom are expatriates, is one. Geography is another. The country is conveniently located between Europe and Asia, with two world-class airlines, Emirates and Etihad.

The UAE has done a lot to make life easy for firms, keeping paperwork to a minimum and moving much of it online. It comes 23rd out of 189 economies in the World Bank's latest ranking for the ease of doing business, the highest in a region that has seen a tumultuous few years. It takes only eight days to set up a business, three fewer than the average for the OECD, a club of mostly rich states. "Two years ago I'd have said the UAE does well relative to the region," says Habib al-Mulla of the Dubai office of Baker & McKenzie, a law firm. "Today I'd say it globally, too."

On April 13th the country's president, Sheikh Khalifa bin Zayed al-Nahyan, signed into law a measure to promote smaller firms by giving them greater access to official contracts and loans. Yet business-people are disappointed by a draft of a broader companies law, which is expected to be sanctioned soon. The bill fails to solve the two big problems hampering business in the emirates. First is the lack of a proper insolvency regime that makes clear the duties of a firm's directors and the rights of its creditors if it hits financial trouble. Despite its high overall rating, the UAE comes 101st on this score in the World Bank's ratings. Such minor matters as being late paying a phone bill may be treated as criminal offences rather than civil matters; businessmen tell tales of colleagues going to the airport only to be told they are banned from travelling.

The second issue the proposed legislation leaves untouched is foreign ownership. International businesses that set up local limited-liability companies, as most do, can own only 49% of them, and thus must find trustworthy local partners. Dubai has created several "free" zones, where full foreign ownership is allowed, but the other emirates have been slow to follow. Analysts reckon that full liberalisation of ownership would attract more businesses.

Investor protection is another worry. The UAE has made progress: its courts tend to recognise the decisions of foreign arbitral tribunals. But enforcing contracts can be tricky, and the new law does not help much. Its biggest potential benefit is its lowering of the percentage that companies must float in an IPO from 55% to 30%. This should encourage more family-owned firms, hitherto worried about losing control, to raise capital to expand.

Further legislation on insolvency and foreign ownership is promised. But when things go well in the Gulf, as they now are, the authorities tend to lose interest in reform. Still, businessmen agree that the UAE's advantages far outweigh its handicaps. Fadi Malas, the boss of Just Falafel, a local fast-food operator, says it is ideal not just as a place to do business but as a springboard for expanding across the region and beyond: plans are in hand for the chain, currently 55 outlets, to grow to more than 900 worldwide. Like the Lebanese-British Mr Malas, entrepreneurs choose the UAE over neighbouring countries not least because it has both electricity and stability—two things other places sorely lack. ■

Made in Spain

A pressing issue

MADRID

The government frets about foreign hands on the nation's olive-presses

THE French government once scuttled a possible foreign bid for Danone, a big dairy firm, on the ground that it was a national industrial "jewel". If yogurt is strategic for the French, olive oil has the same exalted status in Spain. Four savings banks wanted to sell their combined 31% stake in Deoleo, the country's largest producer, and under Spain's stockmarket rules anyone buying such a large stake has to bid for the whole company. Earlier this month, when it emerged that all the bidders were foreign, ministers said they would prefer that it remained in Spanish hands, and raised the possibility of the state taking a stake in the firm.

On April 10th a British private-equity firm, CVC Capital, won the backing of Deoleo's board after making the highest offer, valuing it at €439m ($607m). But given the controversy over selling to foreigners, two of the four would-be sellers now look like keeping their stakes. CVC will end up owning 30% of Deoleo but will later seek to buy the rest.

Olive oil accounts for a mere 0.8% of Spain's exports. Yet it is an extra-sensitive matter. The country is the world's largest producer of the oil, but one-third of its exports are sent in bulk to Italy where it is bottled and sold, often for a significant markup, under Italian labels. Some of the oil sold with the Bertolli brand, one of Italy's and America's favourites, is in fact pressed by Deoleo from the fruits of Spanish olive groves.

These are Spanish, not Italian

It is a similar story for wine. Spain has overtaken France and Italy to become the world's largest producer, but sells almost half of its exports in bulk to markets like France, some of which is retailed under French labels. French- and Italian-labelled wines typically fetch higher prices than Spanish-labelled ones, though the gap is narrowing. And despite the global success of Spanish fashion retailers such as Inditex and Mango, the fancy handbags turned out by artisans in the small Andalusian town of Ubrique are sold under French and Italian labels. Stuart Weitzman, an American shoe designer who makes his products in Spain, says the country produces the world's best footwear, but its domestic labels have barely left a footprint on the world stage.

Spain has come a long way, compared with the relatively closed economy it had before joining the European Union in 1986. More recently, rising exports have helped pull the country out of a deep recession, with the economy returning to growth in the third quarter of 2013. Exports are now 34% of Spain's GDP, up from 24% in 2009. Its olive oil is winning new customers in places like China and Mexico. Prominent chefs like Ferran Adrià have raised the profile of Spanish cuisine and attracted foodie tourists. But the country clearly has some way to go in raising the prestige of the "Made in Spain" label.

Schumpeter | Munk's tale

How a former refugee from the Nazis made and lost several fortunes

YOU can't be right all the time. In a 1995 profile of Peter Munk, the founder of Barrick Gold, a mining giant, *The Economist* concluded that the biggest problem facing the company was who would replace him as boss. Mr Munk will at last step down as the company's chairman at the annual meeting on April 30th, aged 86. In the same profile we fretted that by spending $500m on a property company, Mr Munk risked ending up in the same boat as two fellow Canadian tycoons, Paul Reichmann and Robert Campeau, who had gone spectacularly bankrupt. In 2006 Mr Munk had the last laugh, selling the company for $9 billion.

There were lots of reasons why our 1995 profile was so pessimistic. Mr Munk was already 67. The mining industry is an unforgiving one. Diversifying into property is a well-known road to ruin. And Mr Munk had a catalogue of failures to his name. But we forgot one vital thing: his ability to turn failure into success and threat into opportunity.

Failure is a hot topic in American business at the moment. Silicon Valley entrepreneurs argue that the valley's success is its tolerance for failure. Historians apply the same argument to the great arc of American history: the United States has pulled ahead of its rivals in part because its entrepreneurs have always had a talent for picking themselves up, and its bankruptcy laws are among the most lenient in the world.

In Mr Munk's early years, "threat" meant more than the possibility that his latest app might not get the nod from some venture capitalist; and "opportunity" meant more than the chance of being bought out by Facebook. In 1944 he fled his native Hungary on the "Kastner train", which carried almost 1,700 Jews who were able to pay for their passage to Switzerland and thus escape the gas chambers. Four years later he arrived in Canada with his family fortune gone, and worked his way through university, cleaning cars and selling Christmas trees, ending up with a degree in electronic engineering.

His first business, the Clairtone Sound Corporation, went from boom to bust in 11 years. One moment the former penniless immigrant was driving a Pierce-Arrow convertible down Madison Avenue and paying Frank Sinatra to endorse his hi-fi systems. The next moment he was unceremoniously dumped from the company, which then folded, the victim of overambitious expansion and Japanese competition. Nina Munk, one of his five children, says that his first experience of failure marked him for life. It probably lay behind his penchant for hedging output when he started in mining, an innovation at the time among gold miners. "Every human being makes mistakes," he says. "You have to hedge so that if a decision goes wrong it does not eliminate your ability to stay at the table and play on." But it did not dull his appetite for venturing into challenging businesses.

After the collapse of Clairtone Mr Munk "played on" by investing in hotels in the South Pacific. The threat of failure continued to stalk him. A resort he tried to build in Egypt with Adnan Khashoggi, an arms dealer, went nowhere. A business park he developed south of Berlin after the Soviet empire imploded began well but was undercut by competing parks on the Berlin ring road. Nevertheless, he succeeded in restoring his fortune.

Mr Munk's greatest gamble was his move into mining when he founded Barrick in 1983. He knew little about the business at the time—just as he had known little about hotels before that. But his ignorance freed him from the assumptions that dominated the industry. It was mostly run by geologists and engineers whose aim was to dig enormous holes with other people's money, paying little regard to shareholder returns. Gold miners were supposed to be "believers" in gold rather than efficient managers out to maximise profits. "Bullshit," thought Mr Munk; he soon changed all that. A string of ever-more audacious acquisitions turned Barrick into what was for a while the world's largest gold miner and is still among the biggest.

Mr Munk also turned out to be a first-rate manager of his growing business empire. He may have been willing to overrule old hands when it came to whether mining should be run by managers or miners—and do it with absolute self-confidence that brooked no question. But he was also willing to delegate operational decisions to experts. Indeed, he explicitly refused to micromanage, to give himself time to think big thoughts.

Sailing into stormy weather

In recent years Barrick's competitive advantage has been eroded in part because every other mining company has now recognised the force of his insight. He is leaving the company he created at a difficult time: last year Barrick lost $10.4 billion as the gold price tumbled; and a huge project in the Andes, that the firm has been working on for years, was halted. But none of these problems has dulled his appetite for risk. He may yet have some big, farewell deal for Barrick up his sleeve. Even if not, he can now give his full attention to a side-project he has been working on for years, to turn an old naval dockyard in Montenegro into a marina where the super-rich can park their yachts alongside his.

Whether fortune will smile on his latest venture is unclear: will Russian oligarchs, its most obvious customers, be impoverished by Western sanctions over Russia's meddling in Ukraine, or will they flock to his marina to hunker down until the storm blows over? But Mr Munk is less troubled by the prospect of failure this time around. He plans to give almost all of his fortune to charity, and has already made a start by giving $160m to hospitals and universities in Canada and Israel. He wishes to spare his children the curse of too much inherited wealth. Take it from a man who knows a thing or two about success or failure: there are few things more dangerous than making life too easy. ■

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Private equity

Barbarians at middle age

The firms that pioneered private equity are becoming duller

IN A study from 1989 entitled "The eclipse of the public corporation", Michael Jensen argued that privately owned companies should perform better than their listed rivals. His paper provided the intellectual underpinning for private equity, which has since turned the business of managing unlisted companies into a $3 trillion industry. Despite this success, Mr Jensen's arguments seem somewhat less apposite now that four of the leading private-equity houses—KKR, the Carlyle Group, Blackstone and Apollo Global Management—have themselves gone public.

Investors have decided that they can live with the irony: shares in the big listed private-equity firms are up by between 48% and 131% since May 2012, when Carlyle became the last of them to float. The valuations are partly a reflection of America's bubbly stockmarket, up by 33% in the same period. In much the same way that an energy company's shares rise in tandem with oil prices, private-equity firms are boosted when stockmarkets are high, as the value of the companies they own rises. (Although they hold their stakes on behalf of investors, they keep a share of the gains.)

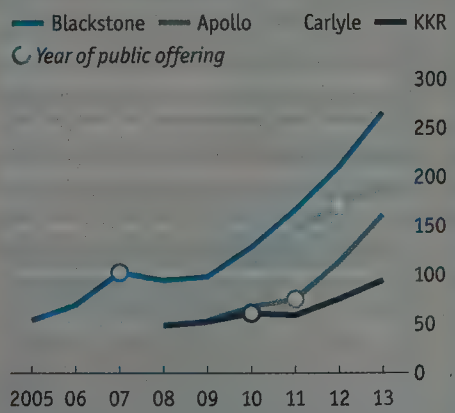
Having shareholders is not the only thing that has changed for the firms that pioneered private equity. They have become bigger, accumulating assets under management at a furious clip (see chart). They are also becoming duller. Whereas KKR and its peers were once at the forefront of finance's most exciting deals, borrowing vast amounts to seize control of underperforming companies in hard-fought takeover battles, they often now merely extend loans to such businesses. Investing in infrastructure, once perceived as a backwater, is also popular. By contrast the leveraged buy-out, the mainstay of private equity, is turning into a marginal activity. Of the $266 billion managed by Blackstone, only $66 billion is in private equity.

The firms say they have diversified into different product lines just as any other business would. Some doubt whether traditional buy-outs offer the best risk-adjusted returns. The industry has matured: fat profits in past decades have attracted over 5,000 rivals competing for the same deals. Together they have raised more money from investors than they know what to do with. Many buy-out firms have resorted to buying and selling stuff to each other. And prices for companies (as multiples of profits) are higher than even at the height of the credit boom. Eking out gains is hard when paying over ten times a firm's earnings, as is now typical, compared with less than eight times in calmer periods.

More to lose

Private-equity firms

Assets under management, $bn



Sources: Bloomberg; company reports

By contrast, lending to companies is a much less crowded field now that banks are busy repairing their balance-sheets. It is less sexy than buy-outs, but it holds another attraction: though fees tend to be lower, they are relatively skewed towards the annual levy of 1-2%, known as management fees, which private-equity firms charge regardless of how their investments fare. These used to be a mere bonus: private-equity firms once earned most of their income from a 20% cut of investors' profits, known as "carried interest". Yet when analysts value "alternative investment" firms, they typically attach three times more value to the reliable income from management fees than to erratic carried interest. Bosses fretting about their share prices will therefore chase humdrum volume over dramatic but risky deals.

This shift is not so good for institutional clients, such as pension funds, which are happy enough to split profits but loathe management fees. Promised annual returns have inched down from the 20-30% range to perhaps half that. That is still better than anything you can do legally with your money, points out David Rubinstein, one of Carlyle's bosses. But the ever-more-assets route stands in contrast to large hedge funds, which have capped the amount of money they manage to preserve their investors' returns. ▸▸

There are other reasons why private equity's titans have become more staid. The nine founders of the four big firms, who between them earned $2.5 billion last year, are nearing retirement age. Their successors are administrators rather than daredevils. "These guys aren't playing to win, they are playing not to lose," as one industry figure puts it. Achieving outsized returns is hard with a $18.4 billion fund—the size of Apollo's latest buy-out war chest—compared with the mere hundreds of millions of yesteryear.

The outlook for the listed firms is mixed. On the one hand, investors are desperate for higher yields, and "alternatives" offer good returns. Investors are also flush with money, given recent stockmarket gains. And they are not immune to the charms of a one-stop shop: a big American university endowment being wooed to invest in European private equity, say, can be sold an Asian property fund at the same time. Better yet, regulatory changes make it easier for Carlyle and others to pursue retail investors, potentially further swelling their assets under management.

On the other hand, many of private equity's customers have been driven to it by low interest rates, which will not last forever. Stockmarkets are also unlikely to remain so frothy. Leon Black, Apollo's boss, has quipped for over a year that he is "selling everything that isn't nailed down". The last time the cycle turned, in 2008, Blackstone's shares fell to just 13% of their 2007 listing price. Fees are coming under pressure, partly because big investors such as sovereign-wealth funds are trying to do their own buy-out deals. And long-discussed reforms to the tax code in America could hurt some bits of their business.

Like a middle-aged man clinging to youth, the buy-out firms want to preserve the vestiges of their past. All fret about losing the culture that made them successful as they go from dozens of staff to hundreds, if not thousands. Employees are their largest shareholders, but that will inevitably change. For now, Byzantine corporate governance means managers are all-powerful. But a time will come, perhaps, for some swashbuckling corporate raiders to shake them from their torpor. ■

Bond trading

FICC and thin

The engine of investment banking is spluttering

IN AN open-plan office big enough to house a football field, scores of traders peer into the unearthly glow of trading terminals stacked two or three high and dozens in a row, buying and selling bonds and currencies. Flags poke out above the terminals, to denote which country's financial instruments are changing hands. It is an awkward reminder of the former docks outside the windows, which bear names such as Canada Wharf or West India Quay, after the places from which they used to welcome ships.

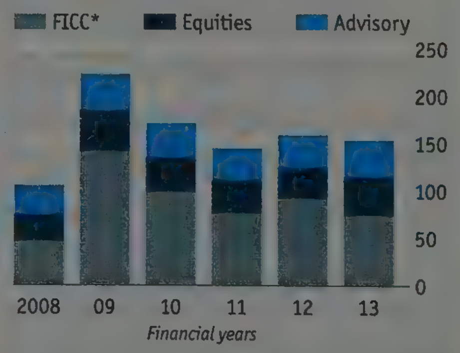
Just as London's docks—once the world's busiest—emptied when the tides of trade lapped new shores, the dealing rooms of the world's biggest international financial market are being hollowed out. The buying and selling of bonds ("fixed income" in the argot), currencies and commodities have been the main source of profits for investment banks in recent years. Now FICC, as these activities are known collectively, is in retreat.

In 2009 the world's big investment banks earned nearly $142 billion from FICC—63% of their total revenue, according to Coalition, a data firm. By last year that had halved to nearly $74 billion, accounting for slightly less than half of revenue

In a fix

Global investment-banking revenues

By business, $bn



Source: Coalition *Fixed income, currencies & commodities

(see chart). In 2013 alone revenues from FICC fell by almost 20%. And the precipitous descent is continuing. On April 11th JPMorgan Chase, the world's largest investment bank by revenue, posted a 21% fall in income from FICC in the first three months of 2014 compared with a year earlier. Days later Citigroup, another large American bank, announced an 18% decline.

The latest drops are all the more surprising since the first quarter of the year tends to be particularly profitable for banks. Moreover, the quarter ought to have been especially lucrative this year given the brisk pace of corporate-bond issuance as creditworthy companies tried to lock in low borrowing rates. The disappointing numbers are rekindling an argument within the industry over whether FICC's decline is merely cyclical or the start of a long-term slump in the profitability of banks' trading businesses.

The trend towards falling trading revenues is a global one, afflicting New York and Hong Kong too. But it is being felt most acutely in London, which is home to the bulk of European investment banking. Analysts expect Europe's big banks to report even sharper drops in trading income than their American rivals. Huw van Steenis, an analyst at Morgan Stanley, reckons Europe's leading investment banks gave up about five percentage points of market share in FICC to the three leading American banks last year. They may lose another three points this year.

At least some of the forces at work are cyclical. Central banks' strenuous efforts to keep long-term interest rates low are depressing bond trading. There is little reason to buy or sell bonds if the interest rates that determine their price are low and stable. Trading volumes may pick up again as central banks slow and eventually halt their bond-buying, particularly if the retreat from "quantitative easing" leads to jumps in interest rates. (Such a jump could at first inflict losses on banks as the bonds they own fall in price.)

Yet deeper trends also appear to be at work. The most important is the growing weight of regulation. Banks everywhere are now required to hold more capital to underpin their trading. The Swiss rules are especially demanding, to the detriment of the two biggest Swiss banks, Credit Suisse and UBS. Many countries are restricting banks' trading on their own account, instead of on behalf of clients; America has banned it outright. There is also a global push to shift derivative-trading to central clearing houses.

Estimates vary as to how much of the sting of these regulations is yet to be felt. Analysts at Citigroup, for instance, reckon that about two-thirds of the impact has already been absorbed, leaving revenues to decline by another 6-7%. Others predict that they still have twice as far to fall. It is probably safe to side with the pessimists. This is partly because bankers and analysts tend to underestimate the harm that regulation will inflict on revenues. But it is also because regulators are likely to push the trading of more instruments onto exchanges, where margins are narrower, as a result of market-rigging scandals affecting currency trading and interest rates.

The tides of finance have almost certainly turned. The real questions are how far they will retreat and how quickly the industry can adapt. ■

Danish mortgages

Something rotten

BERLIN

Denmark's property market is built on rickety foundations

DURING the euro crisis struggling Mediterranean economies were discovered to have been living far beyond their means. Northern Europeans sniffed at the southerners' spendthrift ways. But not all northerners are the epitome of parsimony: Danish households have the highest debt as a share of disposable income among the 34 members of the OECD, a club of mostly rich countries. Their spending binge is beginning to look no more sustainable than that of the feckless southerners.

The culprit, as in so many other places, is the housing market. In 2004 only 10% of Danish mortgages had long interest-only periods, during which borrowers repaid none of the principal. By 2013 that number had climbed to 57%. Over the intervening decade, property prices soared as Danes rushed into the market. Banks financed themselves through mortgage-backed securities, promising investors fat yet seemingly riskless returns: mortgage bonds have a 200-year history in Denmark, and none has ever defaulted.

Gregory Perdon of Arbuthnot Latham, a British private bank, believes that Danish households are living on borrowed time. Thanks to the prevalence of interest-only loans, Danes are paying down their mortgages at a rate of only 2% a year on average. When the interest-only periods end (typically ten years into the loan), their monthly payments will rise sharply. Some will not be able to afford them: the recovery has been weak, and employment has fallen in recent years. Refinancing is an option for many, but not for the most precarious borrowers, due to legal restrictions on loans of more than 80% of a property's value.

Danes are not short of money, but much of it is tied up in illiquid houses and untouchable pension pots. That leaves them short of liquid assets, in the IMF's view. If Danes are obliged to pay down their debts by dumping their houses as their mortgage payments go up, the downward pressure on prices could set off an ugly chain reaction. As it is, prices are stagnating, having fallen briefly during the crisis, and loan-to-value ratios are high.

Mortgages are long-term, whereas most of Denmark's mortgage bonds have maturities of less than five years. The mismatch means that some bonds must be rolled over each year. The Danish government, while insisting that the market is sound, is not taking chances. On April 1st a new law went into effect that would automatically extend by 12 months the maturities of existing bonds in the "very unlikely" event that new auctions failed, or if interest rates went up by more than five percentage points. This will keep the banks from failing. But Fitch, a ratings agency, is still worried: "Some of the consequences of the Danish funding structure are addressed in the bill," it says, "but the causes are not."

Mediterraneans in disguise

The European Banking Authority (EBA) has recommended that Danish mortgage bonds, which it currently categorises as very liquid, be given a less favourable classification. Since new regulations require banks to hold a certain level of liquid assets, such a change would make the "very unlikely" scenario of a failed bond auction a good bit likelier. So Denmark is furiously lobbying against the proposed change with its European partners and the European Commission, which will make a decision in June.

Denmark has low government debt and the central bank has ample reserves. But the Danish krone is pegged to the euro. Mr Perdon says that if a housing slump comes, the central bank will find it hard to defend the peg and succour the mortgage market at the same time.

The central bank pooh-poohs a "horror scenario" involving "the downfall of mortgage banks, banks or homeowners". Ane Arnth Jensen of the Association of Danish Mortgage Banks says that Denmark enjoys some of the cheapest mortgages in the world, thanks to a transparent and competitive market. But if the EBA does lower the status of Danish mortgage bonds, banks would presumably have to offer higher interest to attract enough buyers. The increase would then be passed on to borrowers, further stretching their finances. ■

State-owned banks in Bangladesh

From cancer to pimple

DHAKA

If you cannot reform them, starve them

"IT TOOK us two years, but the greed kept us going," Yusuf Munshi told police after they arrested him and his accomplice. Mr Munshi had tunnelled under a branch of Sonali Bank, Bangladesh's biggest state-owned bank, in the town of Kishoreganj, and made off with five sacks of cash containing 164m taka ($2m). On social media, people advised the robbers that there is a less time-consuming way to get your hands on a pile of cash: befriend the bank manager.

Bangladesh's government banks are normally fleeced at street level during opening hours, in plain sight. In 2012, in the biggest of many banking scandals since the banks were nationalised 40 years before, Sonali Bank revealed that one of its branches in Dhaka had granted a particular firm almost 27 billion taka in loans on false premises. All but 4 billion taka subsequently disappeared without trace.

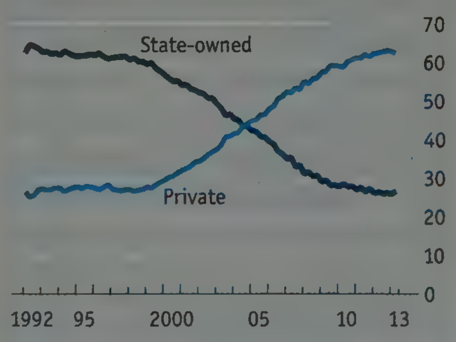
Poor oversight and imprudent lending, often to well-connected firms or individuals, are a hallmark of state-owned banks everywhere. Bangladesh is no exception: in December the central bank estimated that 166 billion taka of loans at the four big state-owned banks were in default—roughly 20% of the total. The government injected 41 billion taka into them that month, 20 billion taka of which went to Sonali Bank. That is only half of the additional capital the central bank thinks they need, and a quarter of what the World Bank deems necessary. The government has promised to raise underwriting standards and institute more effective controls, but observers, both foreign and domestic, doubt its will and ability to do so.

What is remarkable about this story is that the rot at the state-owned banks has ▸▸

State dethroned

Bank deposits in Bangladesh

By type of bank, % of total



Source: Bangladesh Bank

not brought the economy to a halt. Lending continues to grow, albeit by less than the central bank's target of 16% a year. In fact, the state-owned banks are of ever-shrinking relevance. For decades the World Bank and the IMF had been telling the government to clean them up and privatise them. Donors spent millions on clever consultants. But officials at the central bank doubted that any government would willingly part with such important sources of influence and patronage. So they came up with an alternative cure: issue lots of private-bank licences and cap the rate of growth of state-owned banks.

The strategy of transforming state-owned banks "from a cancer to a pimple", as one former official describes it, worked beautifully. Today, their share of deposits is 25%, down from 60% in 1992 (see chart on previous page). In India, in contrast, it has been frozen at 75% since the early 1990s.

Bangladesh's private banks, in turn, have helped boost garment-making, its main industry. Clients are lining up to secure loans for garment factories, power plants and steel mills, among other projects, says Sheikh Mohammad Maroof, the head of wholesale banking at City Bank, a private bank.


Munshi did it the hard way

There is plenty more scope to grow. Commercial interest rates, at 15% or so, are among the highest in Asia. The government issued nine new banking licences in 2012, bringing the total number of banks to 56. That should bring new capital to the industry, and spur lending.

But there are fears that the distinction between private banks and state-owned ones may not always remain so sharp. The government, with the help of the central bank, recently took control of Grameen Bank, an embattled microcredit institution (see box). Many of the new banking licences went to applicants with close ties to the current government. It would be a shame if a reform designed to liberate lending from politicians' whims itself fell prey to them. ■

Microfinance in Bangladesh

Rehabilitation and attack

The biggest study so far finds that microcredit helps the poor after all

FOR years the reputation of microfinance—which gives tiny loans to the poorest—rose and fell in tandem with relations between Grameen Bank and the Bangladeshi government. In 2006 the bank and its head, Muhammad Yunus, won the Nobel peace prize for reducing poverty and Mr Yunus toyed with setting up a political party, supposedly with the government's blessing. Since then several studies have found limited or no benefits from microfinance, and in 2011 (for different reasons) a new government forced Mr Yunus to resign from the bank he had founded.

Now the pattern has been broken: on April 6th the government took one more step in its assault on the bank by taking the power to appoint its own board members away from Grameen and giving it to the central bank. This has happened just as the biggest study of microfinance so far, by the World Bank*, rehabilitates the reputation of the practice as a means of helping poor people, especially women.

The new study is distinctive because of its size (it covers more than 3,000 households in 87 villages) and longevity: interviews took place over 20 years. Previous studies have mostly been smaller or just snapshots.

Bangladesh has well over 500 microfinance providers and the survey found that almost a third of rural households are members of more than one. Critics of microfinance argue that borrowing from multiple sources leads to over-indebtedness, trapping people in poverty.

The study find no evidence of that. Rather, borrowing, whether from one institution or several, increases personal expenditure, household assets, the labour supply and children's education. Moreover, loans do benefit women more than men—as they are designed to.

A 10% increase in men's borrowing raises household spending by 0.04% and the male labour supply by 0.18% (though the figures are modest, they are significant). Borrowing by women pushes up household spending by one and a half times as much and the female labour supply by nearly three times as much (because even a tiny loan frees women to work who might otherwise be trapped in household chores). It also raises school enrolment rates by eight percentage points. And multiple credit institutions encourage households to diversify their income-earning activities. Bangladesh's government should look at the study—and stop interfering with Grameen's efforts to cut poverty.

* "Dynamic effects of microcredit in Bangladesh", by Shahidur Khandker and Hussain Samad. Policy Research Working Paper 6821.

Structural reform in southern Europe

Patchy progress

Some signs of improvement. Must try harder

CYPRUS is suffering a vicious recession as it struggles to adjust after a huge banking crisis. Despite its ailing economy a cab ride from the airport at Larnaca to Nicosia—a journey that takes around 40 minutes—costs €50 ($69). Such high fares, reflecting the power of the taxi trade, hinder the country's attempts to rekindle its tourist industry.

Reforms to tackle these kinds of uncompetitive markets are vital if the beleaguered countries of southern Europe are to be able to survive in the euro area. By making wages and prices more flexible, they allow countries like Spain and Portugal that have lost competitiveness to regain it even though they can no longer devalue against their euro-zone trading partners. They also hold out the promise of higher growth, which is vital if they are to shrug off heavy ▸▸

debt burdens. Four years after the euro crisis began with the first Greek bail-out, what has been achieved?

Assessing the scale and effectiveness of reforms is hard, not least since they tackle a multitude of sins. There are three main categories: enhancing competition, especially in services; promoting business activity rather than stifling it; and overhauling labour markets. In practice a determined effort to improve performance involves reforms across government. In Portugal, for example, 400 measures have been introduced in the past three years.

One gauge of progress in southern Europe is the World Bank's "Doing Business" survey. This annual study, covering over 180 economies, monitors regulation from the perspective of small and medium-sized companies. Its overall index has ten components, ranging from the ease of founding a company to how readily contracts can be enforced. Countries are ranked according to how light the burden of regulation is, as measured by the number of procedures involved and their cost. Other factors include how easily firms can access credit and how well they protect outside investors. A lack of regulation is not deemed a strength; rather the focus is on efficient regulation.

The findings suggest that progress has been made in southern Europe but that it has been patchy both between different countries and within them. Between mid-2009, before the euro crisis took hold, and mid-2013 Greece's rank improved from 109 to 72 (see table). Portugal has also gained ground, from 48 to 31. Advances by Italy and Spain have been less marked, and France has actually slipped down the rankings, from 31 to 38.

Even where progress has been made there is cause for concern. Greece may have improved its ranking the most, but that was from a desperately poor starting-point. Its current performance remains extremely disappointing within some crucial categories. It ranked 161st in the world as a place to register property easily, a handicap for a country urgently needing to encourage inward investment. Another concern is its 98th-place finish for the ease of enforcing contracts, a crucial condition for firms to flourish.

A long climb

Ease of doing business, rank

2013 *(2009)*		2013 *(2009)*	
1 *(1)*	Singapore	33 *(53)*	Slovenia
4 *(4)*	United States	38 *(31)*	France
10 *(5)*	Britain	39 *(40)*	Cyprus
15 *(7)*	Ireland	52 *(62)*	Spain
21 *(25)*	Germany	65 *(78)*	Italy
31 *(48)*	Portugal	72 *(109)*	Greece

Source: World Bank

Such patchiness is widespread. The mountain that Matteo Renzi, Italy's new prime minister, must climb is clear from his country's performance. Its overall rank is dismal enough, at 65. But Italy is even farther down the league table for the tax burden on businesses (138); ease of getting construction permits (112); credit access (109); and enforcing contracts (103). Spain ranks particularly poorly as a place to start a business, at 142. That is a worry because research has established a strong link, unsurprisingly, between the regulatory ease of starting a business and how many are actually set up.

The World Bank's index does not include the impact on firms of employment regulations. But other evidence suggests similarly patchy progress on labour-market reforms in southern Europe. Despite overhauls in Portugal and Spain, southern Europe still suffers from bifurcated markets, in which the gap between "insiders" on cosy, permanent contracts and "outsiders" employed on a temporary basis is particularly pronounced. With so much yet to be done it is worrying that the pace of reform already seems to be slackening. ■

Post-office banking

Put your money where your mail is

ATLANTA

America's postal service ponders a foray into financial services

WITH a workforce of just over 491,000 in 2013, the United States Postal Service (USPS) is second only to Walmart among civilian employers in America. But it still employed more than 200,000 fewer people last year than it did just nine years earlier—when it handled nearly 500m more pieces of mail and had almost 2,000 more retail offices. The rise of e-mail has left America's massive postal service with far less to do, and it has been scrambling to find ways to raise revenue.

Earlier this year its inspector-general released a white paper suggesting that post offices should begin offering financial services, such as cheque-cashing, small loans, bill payments, international money transfers and prepaid cards to which salaries or benefits could be transferred. The reasoning is simple: a lot of Americans have scant access to banks and a lot of post offices have too little to do.

More than one-quarter of American households are unbanked or underbanked, meaning they either lack a current or savings account, or they have one but still use alternatives to banks such as cheque-cashers and payday lenders. That is an expensive habit: the average underbanked household has an annual income of only $25,500 or so, yet spends around 9.5% of that on fees and interest charged by these banking substitutes.

High-street banks find it hard to make money serving poor customers, since they tend to have little money on deposit that the banks can lend out. Penalties such as overdraft fees are not always enough to compensate. Since 2008, 93% of bank-branch closings have come in areas where median household income is below the national average. ▸▸

These are the distressed customers to whose rescue the USPS hopes to ride. Some 59% of its post offices are in places with either a single bank or none at all. In rural hamlets they are often one of very few commercial establishments; even in the postal service's diminished state, there are still more than seven post offices for every Walmart in America. Post offices already sell money orders and provide electronic remittances to nine Latin American countries; from 1911 to 1967 the USPS also held personal deposits. Providing small, brief loans at lower interest rates than payday lenders (not a hard thing to do, since annual rates on payday loans can exceed 800%) could save low-income consumers hundreds of millions or even billions of dollars in interest and fees. The post office would compete not with banks, but with their more expensive stand-ins.

Some, notably the head of the committee of the House of Representatives that oversees the USPS, are unconvinced. They see the postal services' expansion into financial services as government overreach, and a delay of the necessary "right-sizing" of a massive agency that does far less than it used to. Jennifer Tescher, who heads a charity focused on the underbanked called the Centre for Financial Services Innovation, notes that the USPS "has zero capacity, understanding or capability in this arena". "The only asset they bring to the table", she believes, "is distribution." Even that is of limited value outside rural areas: Ms Tescher notes that just because a spot lacks bank branches does not mean it has no cheque-cashers and corner shops selling prepaid cards—many with longer and more convenient opening hours than the post office.

Although turning the USPS into a part-time financial institution may seem outlandish in America, roughly 1 billion people in 50 countries rely on their postal systems for financial services, according to the Universal Postal Union, the United Nations agency that helps the post arrive on time. The business models vary widely. In some countries post offices act as a payment centre, allowing people to receive remittances, pay bills and top up or tap money stored on their mobile phones. Some operate full-service banks: Japan Post, for instance, is one of the world's biggest. In other countries, such as Brazil, commercial banks form partnerships with post offices; in Malawi private banks can rent space from post offices.

A World Bank study found last year that postal banks are likelier than conventional ones to provide accounts to those outside the financial mainstream. The bigger the postal network, the greater the ability to reach such people. That may not convince those who would like to see the USPS shrink, but for those who want to preserve it, it could help to justify its scale. ■

Ratings agencies

Credit where credit's due

The ratings industry has bounced back from the financial crisis

AT FIRST glance, the past few years have not been good to the ratings agencies. During the financial crisis, a collapse in bond markets cut the industry's revenues by a third. Worse, they were blamed for helping to precipitate the crisis, by giving unduly high ratings to mortgage-backed securities (MBS) that later turned sour. Worse still, last February America's Department of Justice sued Standard & Poor's (S&P), a big ratings agency, for $5 billion, claiming that it knowingly issued overgenerous ratings. S&P says the case is retaliation for lowering of America's credit rating.

Yet in spite of these problems the "big three" agencies—Moody's, S&P and Fitch—are now thriving again. Revenues from ratings services at all three outfits surpassed pre-crisis levels last year. Profits at Moody's are at a record high; S&P's are not far off. With margins at an enviable 52% and 44% of ratings revenues respectively, Moody's and S&P now look more attractive as businesses than most other financial firms do.

The ratings agencies' swelling profits derive in part from increased activity in the bond markets, according to Flavio Campos at Credit Suisse, a bank. Last year companies issued a record amount of bonds by value. There was even increased demand for ratings of structured bonds—the sort sliced into different tranches with varying exposure to default, which featured prominently in the crisis.

The fact that issuers still pay for ratings, rather than investors, has also helped maintain demand. Companies issuing bonds benefit from getting them rated by the agencies. The return in lower borrowing costs can be up to ten times as much as the fees paid for the rating. Regulations that still make it virtually impossible to sell unrated bonds in America are also a boon.

All this would have seemed improbable only a couple of years ago, when talk abounded of reforming ratings agencies and diminishing their role. Some critics complained that allowing issuers to pay for ratings gave agencies an incentive to inflate them, to please their clients. Others questioned the huge role that the private, profit-making firms had in the regulation of public markets.

The European Union set up a whole new regulator, the European Securities and Markets Authority, in part to keep a closer eye on rating agencies' conduct. (Among those it looks at is the Economist Intelligence Unit, our sister company, which conducts sovereign credit ratings.) In America, the Dodd-Frank Act of 2010, which instituted a host of financial reforms, required the Federal Reserve and the Securities and Exchange Commission (SEC), Wall Street's main regulator, to tighten regulation of the agencies and to reduce references to ratings in their rules for banks.

The SEC was meant to issue new regulations about ratings agencies by May 2011, but three years later they are still yet to be finalised. Critics, such as the Consumer Federation of America, a lobby group, complain that they fail to reduce the ratings agencies' influence as much as Congress wanted. In part, that is because it has proven much "easier said than done" to replace ratings with other indicators in risk models, according to Sam Theodore at Scope Ratings, a boutique agency.

A new NBER paper* by Harold Cole at the University of Pennsylvania and Thomas Cooley of the Stern School of Business also challenges the notion that it would be better to get the investors who are buying bonds to pay for ratings. They might choose not to release the ratings they pay for, it points out. Patchy information, in turn, could increase the likelihood that the market would misprice securities.

All told, the ratings agencies' business "has not been threatened much by extra regulation or competition", says Douglas Arthur at Evercore Partners, an investment bank. Although outfits like Scope have tried to challenge the big three's dominance, the trio still control around 95% of the global ratings market: the same as before the crisis. With bond markets booming again, ratings agencies are back to their profitable and controversial old selves. ■

* "Rating Agencies", by Harold Cole and Thomas Cooley, NBER Working Paper number 19972.

Free exchange | Nice work if you can get out

Why the rich now have less leisure than the poor

FOR most of human history rich people had the most leisure. In "Downton Abbey", a drama about the British upper classes of the early 20th century, one aloof aristocrat has never heard of the term "weekend": for her, every day is filled with leisure. On the flip side, the poor have typically slogged. Hans-Joachim Voth, an economic historian at the University of Zurich, shows that in 1800 the average English worker laboured for 64 hours a week. "In the 19th century you could tell how poor somebody was by how long they worked," says Mr Voth.

In today's advanced economies things are different. Overall working hours have fallen over the past century. But the rich have begun to work longer hours than the poor. In 1965 men with a college degree, who tend to be richer, had a bit more leisure time than men who had only completed high school. But by 2005 the college-educated had eight hours less of it a week than the high-school grads. Figures from the American Time Use Survey, released last year, show that Americans with a bachelor's degree or above work two hours more each day than those without a high-school diploma. Other research shows that the share of college-educated American men regularly working more than 50 hours a week rose from 24% in 1979 to 28% in 2006, but fell for high-school dropouts. The rich, it seems, are no longer the class of leisure.

There are a number of explanations. One has to do with what economists call the "substitution effect". Higher wages make leisure more expensive: if people take time off they give up more money. Since the 1980s the salaries of those at the top have risen strongly, while those below the median have stagnated or fallen. Thus rising inequality encourages the rich to work more and the poor to work less.

The "winner-takes-all" nature of modern economies may amplify the substitution effect. The scale of the global market means businesses that innovate tend to reap huge gains (think of YouTube, Apple and Goldman Sachs). The returns for beating your competitors can be enormous. Research from Peter Kuhn of the University of California, Santa Barbara, and Fernando Lozano of Pomona College shows that the same is true for highly skilled workers. Although they do not immediately get overtime pay for "extra" hours, the most successful workers, often the ones putting in the most hours, may reap gains from winner-takes-all markets. Whereas in the early 1980s a man working 55 hours a week earned 11% more than a man putting in 40 hours in the same type of occupation, that gap had increased to 25% by the turn of the millennium.

Economists tend to assume that the substitution effect must at some stage be countered by an "income effect": as higher wages allow people to satisfy more of their material needs, they forgo extra work and instead choose more leisure. A billionaire who can afford his own island has little incentive to work that extra hour. But new social mores may have flipped the income effect on its head.

The status of work and leisure in the rich world has changed since the days of "Downton Abbey". Back in 1899 Thorstein Veblen, an American economist who dabbled in sociology, offered his take on things. He argued that leisure was a "badge of honour". Rich people could get others to do the dirty, repetitive work—what Veblen called "industry". Yet Veblen's leisure class was not idle. Rather they engaged in "exploit": challenging and creative activities such as writing, philanthropy and debating.

Veblen's theory needs updating, according to a recent paper from researchers at Oxford University*. Work in advanced economies has become more knowledge-intensive and intellectual. There are fewer really dull jobs, like lift-operating, and more glamorous ones, like fashion design. That means more people than ever can enjoy "exploit" at the office. Work has come to offer the sort of pleasures that rich people used to seek in their time off. On the flip side, leisure is no longer a sign of social power. Instead it symbolises uselessness and unemployment.

The evidence backs up the sociological theory. The occupations in which people are least happy are manual and service jobs requiring little skill. Job satisfaction tends to increase with the prestige of the occupation. Research by Arlie Russell Hochschild of the University of California, Berkeley, suggests that as work becomes more intellectually stimulating, people start to enjoy it more than home life. "I come to work to relax," one interviewee tells Ms Hochschild. And wealthy people often feel that lingering at home is a waste of time. A study in 2006 revealed that Americans with a household income of more than $100,000 indulged in 40% less "passive leisure" (such as watching TV) than those earning less than $20,000.

Condemned to relax

What about less educated workers? Increasing leisure time probably reflects a deterioration in their employment prospects as low-skill and manual jobs have withered. Since the 1980s, high-school dropouts have fared badly in the labour market. In 1965 the unemployment rate of American high-school graduates was 2.9 percentage points higher than for those with a bachelor's degree or more. Today it is 8.4 points higher. "Less educated people are not necessarily buying their way into leisure," explains Erik Hurst of the University of Chicago. "Some of that time off work may be involuntary." There may also be change in the income effect for those on low wages. Information technology, by opening a vast world of high-quality and cheap home entertainment, means that low-earners do not need to work as long to enjoy a reasonably satisfying leisure. ■

* Studies cited in this article can be found at www.economist.com/leisure14

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Reusable rockets

Up and down and up again

SpaceX's latest launch could change the economics of going into orbit

EVERYTHING about space flight is superlative. Even relatively modest rockets are hundreds of feet high. The biggest (the Saturn V, which launched astronauts to the Moon) remains the most powerful vehicle ever built. But space flight is superlatively expensive, too. One reason is that, for all their technological sophistication, rockets are one-shot wonders. After they have fired their engines for a few minutes they are left to fall back to Earth, usually splashing ignominiously into the ocean.

Rocket scientists have therefore long dreamed of making something able to fly more than once. Such a reusable machine, they hope, would slash the cost of getting into space. The only one built so far, America's space shuttle, proved a dangerous and costly disappointment, killing two of its crews and never coming close to the cost savings its designers had intended. But hope springs eternal, and several of America's privately run "New Space" firms are planning to try again.

The furthest advanced is SpaceX, founded by Elon Musk, an internet mogul. On April 18th it is due to launch one of its Falcon 9 rockets on a cargo-carrying trip to the International Space Station (ISS), something it has done twice before. This time, though, the main story is not the ISS mission, but the modifications the firm has made to the rocket itself.

The most notable are the four landing legs folded up along the side of its first stage. If everything goes to plan, once that stage has finished its job and detached itself from the rest of the rocket, it will fire its engines again. Instead of crashing into the sea, it will make a controlled descent, deploy its legs, slow almost to a stop off the coast of Cape Canaveral, and then drop itself delicately into the drink. Mr Musk gives himself a slightly-less-than-even chance of pulling this off.

Will you walk with me, Grasshopper?

If it does work, though, it will be the most dramatic demonstration yet of technology that the firm has been working on for several years. In 2012 SpaceX began flying an unwieldy-looking legged test rocket called *Grasshopper*. This was able to hover, manoeuvre around in mid-air, and land itself back on the pad that launched it.

Then, last September, it attempted to organise the controlled descent of a legless first stage. In what the firm's engineers call a useful failure, the rocket's engines restarted as planned, but as the stage descended it began spinning, flinging its remaining fuel against the walls of its tanks and starving its motors, causing it to crash.

This week's test is intended to end up with the rocket in the ocean, chiefly for safety reasons in case something does go wrong. But SpaceX's ultimate goal is to have the first stage fly all the way back to the pad it was launched from, and to land itself facing upwards. It will then be taken away, serviced, refilled with rocket fuel and readied to fly again. The firm wants, one day, to recover the Falcon's second stage, too—though the greater altitude and speed the second stage reaches makes this a far tougher proposition.

Still, being the biggest, the first stage is the most expensive part, so retrieving it should make a huge difference to launch costs. SpaceX already offers some of the lowest prices in the business. Its launch costs of $56m are around half those of its competitors. Mr Musk has said in the past that a reusable rocket could cut those costs by at least half again.

If SpaceX can make its technology work, that will be the biggest advance in rocketry for decades. Whether it will translate into higher demand for space flight is less clear. Jeff Foust, who edits the *Space Review*, an industry newsletter, argues that even dramatically lower launch costs will do little to change the economics of the industry, at least for the governments and firms that make up almost all of its current customers. Launch costs, as Mr Foust points out, are but a small part of the total cost of developing, building and running a satellite network.

Mike Gold, an executive at Bigelow Aerospace, a firm that makes inflatable space stations—and which has an agreement with SpaceX to launch its products—thinks that most of the interest will come from people and organisations so far denied access to space. "Putting a big rocket like the Falcon in range of mid-size companies, research institutions and even wealthy private individuals, that's a game- ▸▸

changer," he says. "When the laser was first invented, no one had any idea what it might be used for. Today they're everywhere. We're still at that early stage with cheap rockets."

Perhaps. But although SpaceX is a commercial firm, simple profitability is not its only goal. Mr Musk has been perfectly frank about his long-term aim: "to die on Mars, preferably not on impact." After the Falcon 9, the firm plans a beefier version called the Falcon Heavy. That, in turn, would be a dress rehearsal for something called the Mars Colonial Transporter.

Mr Musk wants to build a machine that would let him offer prospective colonists a (one-way) trip to the Martian surface for about $500,000—or, as he puts it, roughly the cost of a nice house in California. Perfecting reusability is essential for achieving that dream.

If you build it, will they come?

Hard-headed commentators may roll their eyes at such ambition. And history suggests reusability is difficult to do properly. The shuttle itself, for instance, was intended to fly every week. In the end, it made only 135 trips over the course of 30 years. There is a credible case that it proved more expensive, in the long run, than old-fashioned throwaway rockets would have done. Yet SpaceX has already shaken up an industry once mired in stifling conservatism. A successful fully reusable rocket would just be the latest example in a long tradition of it confounding its critics. ■

Global warming

Another week, another report

Options for limiting climate change are narrowing

THE Intergovernmental Panel on Climate Change (IPCC), a gathering of scientists who advise governments, describes itself as "policy-relevant and yet policy-neutral". Its latest report, the third in six months, ignores that fine distinction. Pressure from governments forced it to strip out of its deliberations a table showing the link between greenhouse gases and national income, presumably because this made clear that middle-income countries such as China are the biggest contributors to new emissions. It also got rid of references to historical contributions, which show that rich countries bear a disproportionate responsibility. That seems more like policy-based evidence than evidence-based policy and bodes ill for talks on a new climate-change treaty, planned to take place in Paris next year.

The new report is intended to measure how far governments have met their promises, formalised in 2010, to keep the global rise in mean surface temperatures compared with pre-industrial times to less than 2°C. It says they are miles from achieving that goal and are falling further behind.

Between 2000 and 2010, it says, greenhouse-gas emissions grew at 2.2% a year—almost twice as fast as in the previous 30 years—as more and more fossil fuels were burned (especially coal, see page 55). Indeed, for the first time since the early 1970s, the amount of carbon dioxide released per unit of energy consumed actually rose. At this rate, the report says, the world will pass a 2°C temperature rise by 2030 and the increase will reach 3.7-4.8°C by 2100, a level at which damage, in the form of inundated coastal cities, lost species and crop failures, becomes catastrophic.

The report looks at what would be needed to rein back the rise in temperatures, so that it would not exceed 2°C. This, it says, would mean cutting greenhouse-gas emissions in 2050 to between 30% and 60% of their levels in 2010. Unfortunately, emissions are still rising and are likely to increase by around 10% by 2030, at which point, the IPCC suggests, there will be only a 33-66% chance of hitting the 2°C target. By 2100, moreover, the burning of fossil fuel would have to cease altogether unless all the carbon dioxide thus generated is captured and stored.

The panel puts enormous weight on carbon capture and storage (CCS): in some versions of its calculations, doing without it raises the cost of reducing greenhouse-gas emissions by between 30% and 300%. But CCS remains unproven at a large scale.

The IPCC still thinks it might be possible to hit the emissions target by tripling, to 80%, the share of low-carbon energy sources, such as solar, wind and nuclear power, used in electricity generation. It reckons this would require investment in such energy to go up by $147 billion a year until 2030 (and for investment in conventional carbon-producing power generation to be cut by $30 billion a year). In total, the panel says, the world could keep carbon concentrations to the requisite level by actions that would reduce annual economic growth by a mere 0.06 percentage points in 2100.

These numbers look preposterous. Germany and Spain have gone further than most in using public subsidies to boost the share of renewable energy (though to nothing like 80%) and their bills have been enormous: 0.6% of GDP a year in Germany and 0.8% in Spain. The costs of emission-reduction measures have routinely proved much higher than expected.

Moreover, the assumptions used to calculate long-term costs in the models are, as Robert Pindyck of the National Bureau of Economic Research, in Cambridge, Massachusetts, put it, "completely made up". In such circumstances, estimates of the costs and benefits of climate change in 2100 are next to useless. Of the IPCC's three recent reports, the first two (on the natural science and on adapting to global warming) were valuable. This one isn't. ■

Eggs-actly

This picture is part of a scientific Easter-egg hunt. "Egglab" tries to recapitulate the evolution of crypsis in nightjar eggs by asking the public to act as predators and play "spot the egg" in photos of places where these ground-nesting birds might lay their clutches. A computer generates the initial eggs (oval shapes whose colours and patterns are chosen at random and superimposed on the image) and the player has to find them. Those it takes longest to find are then mutated slightly and crossbred to create a new generation. After ten generations the result can, as the picture shows, be quite cryptic (spot the one artificial egg). Martin Stevens of Exeter University, in Britain, who devised the game, hopes to use it to study selection pressures on real eggs. Readers who wish to play should go to nightjar.exeter.ac.uk/egglab/

Fern evolution

Time and chance

The survival of ferns to the present day depended on an ancient accident

WHY do ferns still exist? That may sound an odd question, but it isn't. Ferns dominated the botanical world for hundreds of millions of years, between the Devonian, about 360m years ago, and the rise, about 120m years ago in the Cretaceous, of the flowering plants familiar today. When that happened, though, most ferns could not stand the competition and were driven to extinction. One group alone prospered and diversified. Almost all ferns now alive are its descendants.

The secret these ferns share is an ability to live in the shadows of their competitors. And that, suggests research just published by Fay-wei Li of Duke University in North Carolina in the *Proceedings of the National Academy of Sciences*, is the result of an extraordinary accident long ago which means the ferns in question are not actually 100% fern.

Modern ferns' success in the shade depends on a protein called a neochrome. This molecule enables them to respond simultaneously to red and blue light in both the way that they grow and the way the photosynthetic elements in their cells, the chloroplasts, organise themselves. Most plants respond best to blue light, which has most energy in it. But if overarching flowering plants have already sucked out the blue then an ability to respond to red as well is an advantage.

Neochrome's response to both ends of the spectrum is a result of the gene encoding it being a merger of bits of two other genes. One ancestor is the gene for a red receptor called a phytochrome. The other is for a blue receptor called a phototropin. In an attempt to understand how this merger happened, Mr Li and his colleagues searched the 1000 Plants Initiative, a DNA database at the University of Alberta, in Canada, to construct an evolutionary tree for the molecule and its two components.

What they found shocked them. Before they conducted their search, the only known non-fern neochrome was in a small group of algae. That appeared to be a coincidence; a case of convergent evolution. But their investigations revealed that in addition to these algae a group of primitive plants called hornworts, which are related to mosses but not closely related to ferns, have a neochrome too. This might have been convergent evolution, as well, of course. But closer analysis showed it was not. Instead, the evolutionary tree of fern neochrome fits neatly inside the evolutionary tree of hornwort neochrome. The original gene for fern neochrome—the gene that, in all probability, saved ferns from obscurity—formed in a Mesozoic hornwort and then somehow passed to a Mesozoic fern.

In essence, this is the same process of gene transfer from one species to another that is used artificially to make genetically modified crops. Such a transfer might have happened naturally by a virus picking up the relevant gene and carrying it across the species boundary. Or it might have occurred in the rough-and-tumble of everyday life as a tiny fern grew up abutting a hornwort. The details will probably never be known. But that chance event, which happened, Mr Li's calculations suggest, about 180m years ago, probably explains why ferns are still around and thriving. ■

Psychology

Hunger strikes

Low glucose levels can lead spouses to lash out at one another

TEMPESTUOUS relationships prove that the course of true love never has run smooth. Beatrice and Benedick battled over friends, Elizabeth and Mr Darcy over etiquette, and Punch and Judy over a baby (and sausages). But a study led by Brad Bushman of Ohio State University, just published in the *Proceedings of the National Academy of Sciences*, suggests that had these pugnacious partners eaten more, their aggressive tendencies might have been lower.

Dr Bushman looked at 107 heterosexual couples who had been married for 12 years on average, and searched for correlations between the levels of glucose in his volunteers' bloodstreams and their affection (or lack of it) for their spouses. To do this, he and his team first asked that participants rate their spousal relations, to provide a baseline, and then monitored their blood sugar morning and evening for three weeks, while getting them to perform two revealing tasks.

That's the way to do it

The first, which each participant had to do every evening, was to stick pins in a doll he or she had been told represented his or her spouse. Up to 51 pins were available. The second, performed once, at the end of the experiment, was a computer game which participants were told they were playing against their spouses. (In fact, they were playing against the machine.) They were also told that if they won a round of this game, their prize was to be able to torment their partner with an unpleasant noise such as fingernails scratching a blackboard or the scream of an ambulance siren at a volume and duration of their choosing—and their choices were recorded.

Both tasks showed that blood-sugar levels do indeed help regulate marital annoyance. Most couples were not particularly punitive towards each other when it came to voodoo pin-sticking: the average number of pins stuck per night was 1.35, with the full 51 going in on only three occasions. But for any given individual the number of pins he or she (and women used more pins than men) stuck in the doll of an evening was correlated with his or her blood-sugar level that day. Similarly, those with low average blood-sugar levels over the three weeks of the experiment chose longer and louder punishment sounds for their spouses than those with high levels.

Blood-sugar levels and tolerance for one's better half's irritating foibles do, then, seem to be correlated. That does not prove causation—particularly in the case of the noise test, where higher or lower glucose levels over an extended period might be a reflection of something else significant and pertinent about the person in question. But it may be that one of the secrets of a successful marriage is to eat before you fight. If only the crocodile had not come along to consume Punch and Judy's sausages, things might have turned out rather different.

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American cinema

A man in full

How John Wayne stayed America's favourite film star for so long

John Wayne: The Life and Legend. By Scott Eyman. *Simon and Schuster; 512 pages; $32.50 and £25*

SOON after his 57th birthday, John Wayne learned that he had a big cancerous tumour on his left lung. "I sat there," he later wisecracked, "trying to be John Wayne." Who was that imaginary figure: Western hero? Shy giant? Rightist bigot? American myth? Scott Eyman knows the questions but leaves it mostly to others to say what Wayne's outsize screen persona meant. He concentrates instead on what Wayne, the actor, did.

In comprehensive detail, this new biography chronicles a great star at work. Light on Hollywood gush and sleaze, it tracks the ups and downs of a long career. Its patient record of Wayne's triple hold on audiences, critics and moneymen goes some way to explaining an astonishing fact about a man who was born in 1907, not long after the birth of film itself: that even today, Wayne remains one of the top-ten favourite stars in America, a fixed point in an otherwise changeable field of actors and actresses young enough to be his great-grandchildren.

From the late 1920s, when Wayne started in Hollywood shifting props and turning stunts, until just before his death in 1979, he appeared in around 200 films. He came up slowly in silent quickies and then in hack parts for minor studios. He made friends with Yakima Canutt, dean of the stuntmen. The long apprenticeship taught Wayne to use gesture more than words.

The director John Ford spotted Wayne's simple, natural-seeming style and cast him in "Stagecoach" (1939), Wayne's breakthrough Western. "He'll be the biggest star ever," Ford predicted. "He's the perfect Everyman."

Wayne on camera was not dwarfed by the desert. He seemed to get bigger as he went up. Almost six foot four (1.93 metres) in boots, he had a broad chest, long body, shortish legs and small feet. He worked hard to become a graceful big man. The swaying stride he developed—like a fairy to some, "I-own-the-world" to others—made him recognisable by gait alone.

He was gorgeous when young, with lidded, almond-shaped eyes, high cheekbones and a lopsided smile. His face was strong, not rugged, and with no trace of cruelty or guile. Nightloads of tequila and cigarettes, dawn shoots, three marriages and countless affairs, including one with Marlene Dietrich, aged the face without changing the expression. The neck thickened, the stomach grew and drooping lids narrowed the eyes. Wayne's steady, appraising gaze still said, "I won't start anything, but if you do..."

Wayne was lucky in his directors, as they were in him. Several of Ford's Westerns with Wayne became classics, notably "The Searchers" (1956, pictured) and "The Man who Shot Liberty Valance" (1962), as did an earlier film, "Red River" (1948), directed by Howard Hawks. In a popular genre, such films pointed to the moral harms of frontier conquest. They replayed with 20th-century means the old tale of wilderness versus civilisation. He did war pics, adventure films and comedies too, but the American West was his truest stage. How hard it was, Ford and Hawks once agreed, to shoot a Western without Wayne.

He was born Marion Morrison into a struggling Scots-Irish family in Iowa, nicknamed Duke as a boy after his Airedale terrier and renamed John Wayne on screen. His father's luck—a failed farm, a job in a drugstore—was no better on moving to California. When he was 14, Wayne's parents split up. The navy turned him down and young Wayne was too poor to stay in college. Hard graft, wariness of high-ups and sympathy for working stiffs became his compass points.

After the studio system weakened in the late 1940s, big stars and independent producers came into their own. Wayne was among the first actors to win a percentage of a film's earnings. By then his name alone could bankroll a film. He started his own production company and tried directing, with mixed success. Though few critics applauded, audiences did. "The Green Berets" (1968), Wayne's hymn of praise to the Vietnam war, made big money. Wayne himself grew rich, though not super-rich. Trusting and open by nature, he was routinely outfoxed by Hollywood's second-most-creative industry, accounting.

Politically, Wayne emerges here less as a conservative zealot than as an innocent easily used. In the second world war, when ▸▸

other stars enlisted, Wayne's studio asked for repeated deferments and he demurred. He was no more heroic in the post-war red scares that led to Hollywood's blacklisting of left-wing writers and directors, although on this possibly lenient account, Wayne was more figurehead of an ignoble cause than active witchhunter.

Like a cinematographer, Mr Eyman offers readers Wayne from many angles, in his own words and the words of those who worked with him. He offers few stereotypes, makes no final judgments. After Wayne, Westerns grew gruesome. Screen heroes became superheroes, and then cartoons. No longer number one, Wayne will slip further down the rankings. His outsize image will blur and fade. In the meantime Mr Eyman has left an engrossing record of how the Duke stayed top dog for so long. ■

Fiction

After dark

The Walk Home. By Rachel Seiffert. *Virago; 294 pages; $25.95 and £14.99*

FOR Rachel Seiffert, history is a burden that can never be shed. "The Dark Room", her 2001 debut, which was short-listed for the Man Booker prize, traced the legacy of Nazi guilt in Germany through the lives of three ordinary people. She sought neither to explain nor justify, instead exploring how people survive the weight of their own past. Most of her writing since, both long-form and short, echoes similar themes.

"The Walk Home", her third novel, retreads this turf. The book is set in Glasgow and follows the fissures of an age-old sectarian divide in two intertwined narratives, set now and 20 years ago. In the early part of the story Lindsey is on the run, first, as a young pregnant girl, from her father and Ireland ("Her border hometown: not just boring, it was a war zone") and later from Scotland, her marriage and her son Stevie, who himself flees soon afterwards. Now Stevie is back close to home, working and living with a bunch of Polish builders within miles of his family, yet still he cannot bear to retrace the final steps. The story of the Polish group is simpler, but they too are putting off their future, stuck in small, claustrophobic rooms, waiting to return to their own lives. For each person, the walk home is a long one.

This is a book about people who say very little: Stevie's uncle Eric and his father came to blows, "neither of them budging, two decades lost to both of them". Later Eric spends his days drawing his old dad and scenes from the Bible, whose lessons they hurled at each other when Eric strayed and married a Catholic . Lindsey chats to her mother-in-law but not her own husband. Young Stevie realises that he offends least when he asks nothing, bothers no one.

Despite a plot driven by unhappy silences, "scratches shut in", this is a brilliantly compelling and powerful work, told in beautiful, lean prose. "Life can send you reelin, hen," says Eric at one point. "It can deal you blows you never recover from." Evidence of this unfolds, drumbeat by steady drumbeat. A teenage boy stays firmly on the rails, no drugs, no wildness–"a son in a flute band seemed like a blessing by comparison"—but his enthusiasm for being in a Protestant marching band inexorably pulls the family apart.

Ms Seiffert's novel builds not so much to a grand finale as a bleak realisation, that grand political themes, brought down to the level of the everyday, aggrandise no one. The truth is sadder than fiction: loving and leaving is "part of life's pain", and redemption is always just around the next corner.

Kim Philby

Rogue mate

A Spy Among Friends: Kim Philby and the Great Betrayal. By Ben Macintyre. *Bloomsbury; 352 pages; £20. To be published in America by Crown Publishing in July; $27*

Kim Philby: The Unknown Story of the KGB's Master Spy. By Tim Milne. *Biteback Publishing; 285 pages; $29.95 and £20*

WHEN an urbane young man named Harold Philby, whom everyone called Kim, joined Britain's Secret Intelligence Service (or MI6) in 1940, no one questioned his credentials. "I was asked about him, and said I knew his people," recalled one top spy. He belonged to the same clubs, drank the same booze and wore the same ties as the other men who secretly waged war against Britain's enemies. He was one of them. Except he wasn't. Kim Philby was a dedicated communist, a double agent working for the Soviet Union.

The nub of this story is well known. The number of books written about Philby is in proportion to his treachery—there have been many, including volumes by himself, his widow and a former wife. But two new works shed fresh light on the spy by looking into his friendships with men of similar stock. He did not like deceiving these people, he said. In fact, he felt very bad about it, for his friends would become his defenders, a band of loyal dupes.

None was more devoted than Nicholas Elliott, a well-bred spy who modelled himself on Philby, down to the umbrella. The pair "were as close as two heterosexual, upper-class, mid-century Englishmen could be", writes Ben Macintyre in "A Spy Among Friends". The author is known for his thrilling accounts of espionage, but the focus here is on characters, not capers. And the doomed relationship between Philby and Elliott (and, to a lesser extent, James Angleton, an American spy) makes this old tale of treason seem new enough.

For a long time the lives of Philby and Elliott ran in tandem—both went to Cambridge, married women of a certain class (for Philby, a second wife) and were rising stars in MI6. But everything changed in 1951, when Guy Burgess and Donald Maclean, British diplomats spying for the Russians, fled to Moscow. Investigators thought that a third man had tipped them off about British suspicions; the evidence pointed to Philby. It became clear, to some at least, why the operations he touched always turned to ash.

But Elliott's trust was not shaken. He rallied around his friend, along with the other gentlemen of MI6, and beat back an investigation by MI5, the security service. It was an injustice, thought Elliott, that Philby was dismissed in 1951. When a politician re-ignited the "third man" controversy in 1955, Elliott organised Philby's defence. Years later he even brought him back on the MI6 payroll, this time as an agent in Lebanon, where he reported for *The Economist*.

Elliott had a special rapport with Philby, but it was Tim Milne, another former spy, ▸▸

who knew him the longest. His first-hand account of Philby's life from childhood, when the two first met, was blocked from publication by MI6 some 35 years ago. But that restriction has since been lifted and, though Milne died in 2010, his family released his story. It is disjointed, as Milne moved in and out of Philby's life. And while his detailed observations are at times intriguing, they are too often irrelevant—for example, Philby had an aversion to apples. Even red ones, apparently.

Elliott's is the more captivating friendship, and it provides a fitting denouement to Philby's treason. When MI6 finally settled on his guilt in 1962, Elliott insisted on confronting the traitor. Even then, said an official, Philby "should be treated as a gentleman". And so he was: sitting in a Beirut flat, Elliott and Philby "courteously" lied to one another, writes Mr Macintyre. In the end, Elliott left with a confession, and Philby snuck off to Moscow. It is still not clear if Elliott hoped he would defect. "I cannot help thinking that perhaps you wanted me to do a fade," wrote Philby to Elliott a short time later, as if the two were still friends. ■

America in Afghanistan

Misjudgments

The Wrong Enemy: America in Afghanistan, 2001-2014. By Carlotta Gall. *Houghton Mifflin Harcourt; 329 pages; $28*

FEW observers are better placed than Carlotta Gall to judge what has gone so badly wrong in Pakistan and Afghanistan since 2001. She spent more than a decade reporting for the *New York Times* in both countries, often from remote corners. She has a family connection, too: her father, Sandy Gall, is a British television journalist who covered Afghanistan for many years, notably during the war of the 1980s.

In "The Wrong Enemy" Ms Gall offers a provocative and compelling thesis: that America and its allies are leaving Afghanistan as a weakened state, plagued by violence and vulnerable to ambitions of its neighbours. That is despite the deaths of perhaps 70,000 Afghans, 3,400 foreign soldiers and a trillion-dollar bill. Yet the outcome was probably inevitable, since the West's efforts were badly misdirected. In the words of America's late special envoy to the region, Richard Holbrooke: "We may be fighting the wrong enemy in the wrong country."

Ms Gall argues that since the Islamist movement is "rotting at the core", the Taliban alone could have been crushed or accommodated long ago. It survived because it serves as a front for the far stronger Pakistani army, in particular the "S Directorate" of its spy network, the Inter-Services Intelligence (ISI). Pakistan uses the Taliban to project military power across the border.

The author shows how the ISI provides havens for the Taliban and directs them to attack Western forces. In Pakistan they develop suicide-bombing techniques and raise soldiers from madrassas. Each school has a talent-spotter paid to recruit students for militant outfits, who are referred to derisively by Pakistan's army as "potato soldiers". At crucial moments Pakistanis themselves have directly overseen operations, like the bombing in 2008 of India's embassy in Kabul, which was "sanctioned and monitored by the most senior officials in Pakistani intelligence".

More controversially, Ms Gall gathers evidence that senior elements of the Pakistani army collaborated with al-Qaeda, even as it drew billions of dollars from America to fight the militant Islamist group. Afghan intelligence sources "become convinced" early on of the relationship, she says, describing how in February 2006 the Afghan president, Hamid Karzai, and his spy chief personally handed a file to Pakistan's dictator, Pervez Musharraf, giving evidence of al-Qaeda operatives hidden in safe houses in Abbottabad, a military town north of Islamabad. Mr Musharraf looked anxious, but did not act.

Five years on American special forces killed Osama bin Laden, also in Abbottabad. The natural question was whether Pakistan's army had been sheltering him all along. Ms Gall says the Americans quickly concluded that it had, and that the head of the ISI, Ahmad Shuja Pasha, and possibly the army chief, Ashfaq Parvez Kayani, as well were aware of bin Laden's presence. Ms Gall implies that Mr Musharraf probably also knew, though her evidence for this is weak. She says that the ISI had a desk dedicated to looking after al-Qaeda's leader, while correspondence found in his house showed that he and aides had discussed doing a deal with Pakistan to refrain from terrorism in the country in return for protection.

Other evidence also points to a relationship. Mobile phones are routinely monitored in Pakistan, yet officials chose to ignore the fact that calls were being made to Saudi Arabia from mobiles inside bin Laden's home. And even though the house was in a high-security area police did not check on it, suggesting that someone in the ISI vouched for the occupants. That bin Laden's house had little protection also pointed to his reliance on others to guard him.

The book asks many of the right questions about the affair, and history may well prove Ms Gall's answers to be right. Why, for example, would the American government not make public its conclusion about Pakistan's complicity with al-Qaeda? Ms Gall suggests it cared more about trying to preserve its relations with a nuclear-armed ally. She may also turn out to be correct in suggesting that Mr Musharraf and ten senior generals knew of militants' plans to kill Benazir Bhutto in 2007, but chose not to protect her. He is now on trial for treason in Islamabad in a separate case.

Ms Gall's narrative would have been stronger if she had balanced what she learned from Afghan intelligence sources, who are famously hostile (if for good reason) towards Pakistan's army, with other views. A better sense of context would also have made her argument more powerful. Why did the West choose not to confront the ISI, Ms Gall's "right" enemy, despite abundant evidence of its wrongdoing? Was it fear of instability and the rise of Islamist groups across South Asia, the need for Pakistan's help in promoting counterterrorism in the West or anxiety about China's growing influence? "The Wrong Enemy" is a strong, well-crafted account by an informed observer. It could have been even stronger. ■

Time to declare

Fiction

Chronicle of a death foretold

The Truth about the Harry Quebert Affair. By Joël Dicker. Translated by Sam Taylor. *MacLehose Press; 615 pages; £20. To be published in America by Penguin Press in May*

HARRY QUEBERT is a struggling part-time writer who, like others before and since, exchanges the distractions of New York for a quiet life in rural New England. He heads to Somerset, New Hampshire, and almost immediately falls in love with Nola, a beautiful local girl. He is 34, she is 15. One night she climbs out of her bedroom window and disappears.

Thirty-three years later Nola's body is dug up in the grounds of Quebert's seaside home. Also in the grave is a leather bag with a manuscript copy of the novel that has made his name in the intervening period. Quebert, the sole suspect, is quickly arrested. Marcus Goldman, his gifted young protégé, turns up, intent on clearing his master's name.

Written in French by Joël Dicker, a Swiss novelist who is not yet 30, "The Truth about the Harry Quebert Affair" was first published in 2012. It has since sold 2m copies in Europe and has been translated into 32 languages in 45 countries. Next month it comes out in English, thanks to the work of Sam Taylor (translator of another fashionable French novel, Laurent Binet's "HHhH"), and plastered with more than a dozen congratulatory blurbs from critics across the continent.

Part master-and-disciple tale, part whodunnit, Mr Dicker's thriller is also a post-modern confabulation of timelines and stories, in the manner of Kate Atkinson's "Life after Life". At the same time as playing detective, Goldman is being pursued by his New York publisher for his second novel. Each chapter of "The Truth about the Harry Quebert Affair" begins with a lesson from Quebert on how to write a bestseller and how to be a man, with snippets of advice drawn from boxing and romantic pop psychology. "The first chapter...is essential." "Your second chapter has to be...a right-handed punch to the reader's jaw." "Do you know what is the only way to know how much you love someone?...By losing them." "Victory is within you. All you need is to want to let it out." With enough plot twists to fill a truck, it is a racy read. Clever, though at times far-fetched. ■

Correction: We made a mistake when we said that the heart beats a billion times in the life of both a hummingbird and a human being ("Fairy creatures", April 5th). The correct figure should have been 1.26 billion heartbeats in the life of a hummingbird and 2.45 billion for a human being.

London theatre

Man of the moment

Modernising an Arthur Miller classic

OF ALL modern dramatists, Arthur Miller can be the hardest to bring up to date. His plays are vivid portraits of the era in which they were written. As a result, few productions manage to go beyond presenting them as period pieces. "A View from the Bridge", which opened at the Young Vic theatre in London on April 11th, is a rare exception. Directed by Ivo van Hove, a Belgian who is fast becoming known further afield, it is a striking new take on Miller's work.

"A View from the Bridge" tells the story of Eddie Carbone, an Italian-American longshoreman living in Red Hook, Brooklyn. After he takes in Marco and Rodolpho, two men who have illegally arrived from Sicily, events begin to unravel: his young niece Catherine becomes infatuated with Rodolpho, disturbing the jealous and protective Eddie. As a play it can seem dated: Eddie's belief that Rodolpho is homosexual seems forced ("I'm tellin' you I know—he ain't right"), while the structure of Miller's play—loosely based on Greek tragedy, with one character, a lawyer, narrating events to the audience—can appear mannered.

Mr van Hove is known for his innovative approach to classic plays. Since 2001 he has been the director of Toneelgroep Amsterdam, Holland's largest repertory theatre. With his long-term collaborator and partner Jan Versweyveld he creates stylised productions, often using video screens and experimental staging. Audiences in his productions often find themselves sitting onstage or being moved around an auditorium.

In comparison with some of Mr van Hove's earlier productions, "A View from the Bridge" is relatively simple. The play opens with Eddie (Mark Strong) showering under a sliver of water and wringing out his shirt. Mr Versweyveld's stage design is stark: a sunken monochrome set with few props, relying on subtle shifts of lighting to indicate scene changes. All the characters, with the exception of Catherine (Phoebe Fox), wear muted colours. Padding around the stage in bare feet, the actors seem vulnerable. A requiem mass quietly plays throughout, building up to a crescendo at the end of the play.

Miller's play is perhaps an odd choice for a European director better known for his more avant-garde work. But Mr van Hove was attracted to the ambiguity of the play: how Eddie can seem sympathetic one minute and then monstrous the next. The play also echoes some of the anti-immigration rhetoric being bandied about in Europe. "It raises the issue of whether you should ask of people who come to your country that they should integrate and adapt—and if that is possible anyway," says Mr van Hove. His stylish staging strips away the affectations in Miller's play. In doing so, an American classic suddenly appears dazzlingly modern. ■

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To apply, please visit **thecommonwealth.org**

The closing date is **Wednesday 30 April 2014.**

IRENA
International Renewable Energy Agency

Director, Knowledge, Policy and Finance Centre D-1

Location: Abu Dhabi (United Arab Emirates), IRENA Headquarters
Duration: Two years Fixed Term Appointment, with possible extension
Closing Date: 18 May 2014

The International Renewable Energy Agency (IRENA) seeks to recruit a Director for the Knowledge, Policy and Finance Centre (KPFC) in the IRENA Secretariat.

IRENA is an inter-governmental organisation, mandated by governments to promote the widespread adoption and sustainable use of all forms of renewable energy. It facilitates and catalyses sharing of best practices and lessons learned regarding policy frameworks, capacity-building, finance mechanisms and other relevant measures for accelerating and expanding the demonstration and deployment of renewable energy technologies.

KPFC is IRENA's central knowledge repository and a centre of excellence for renewables policy and finance issues. KPFC's information collection and analysis supports the work of other divisions, as well as providing critical knowledge products to IRENA's Members and the public. The division is also a platform for engagement with the private sector and civil society.

Under the direct supervision of the Director-General and within delegated authority, the Director, KPFC, undertakes a range of analytical and advisory activities aimed at providing accurate information, sound advice and a broader knowledge base to assist countries in making informed renewable energy policy decisions.

Further details of the vacancy announcement and information on how to apply can be obtained at **www.irena.org/Jobs**.

Tenders

WFP
wfp.org

EXPRESSION OF INTEREST NUMBER EOI-OMJ-001-14 FOR PROVISION OF CASH & VOUCHER FINANCIAL SERVICES TO UNWFP FOOD ASSISTANCE PROGRAMMES IN SOUTHERN AFRICA

The United Nations World Food Programme (UNWFP) is the world's largest humanitarian agency fighting hunger worldwide. Each year, on average, WFP feeds more than 90 million people in more than 70 countries.

The UNWFP Southern Africa Regional office in Johannesburg wishes to establish a shortlist of potential financial/payment service providers with proven capacity to set up, maintain, and manage a secure, effective and efficient electronic (phone or card based) solution that can deliver cash or food vouchers in different programmes in diverse online and offline contexts across several countries in the region. In 2013, the region planned to support an estimated 20 million food insecure people, of whom 2.7 million were through cash and voucher based transfers.

UNWFP envisages increasing the volume of assistance via cash and vouchers where contexts are appropriate.

UNWFP hereby invites interested potential service provider, with the ability to operate in at least 3 countries in Southern Africa Development Corporation (SADC) region, to express their interest by contacting UNWFP through the following dedicated email address, **procurement.odj@wfp.org** not later than **25th April 2014, 17:00 hours (Johannesburg time)**.

Potential service providers, who have expressed interests, will receive a questionnaire to be completed and submitted. UNWFP will send the questionnaires with submission instructions. The received completed questionnaires will be used to pre-qualify potential service providers who will later be invited to participate in a competitive bidding exercise.

Lead and Innovate in Global Health

The Global Fund
To Fight AIDS, Tuberculosis and Malaria

Head of Private Sector Engagement – Geneva

The Global Fund to Fight AIDS, Tuberculosis, and Malaria intends to appoint a new Head of Private Sector Engagement. This is an opportunity to lead the development of innovative partnerships that are at the heart of the Global Fund's unique character. It has had remarkable success already and the new Head will build on this and pioneer fresh approaches.

The Global Fund's mission is to attract, manage and disburse additional resources to make a sustainable and significant contribution in the fight against the three diseases, and to contribute to better health for all. Since 2002, it has become a leading financier of programs to reverse the burden of these diseases. It has disbursed US$23 billion for more than 1,000 programs across 140 low and middle income countries and has recently approved an initial allocation of US$10.2 billion for grants during 2014-2016.

The Fund has been very successful in building partnerships with the private sector. For the current replenishment, covering the years 2014-2016, it has mobilised US$640 million from the private corporate sector, private foundations and High Net Worth Individuals. These partnerships with the private sector encompass direct financing of programs, as well as the creation of shared value solutions, innovation through in-kind support and technology transfer, and innovative financing mechanisms. This is a critical and growing part of its strategy and the Fund has a highly ambitious target for future growth.

The successful candidate for the role of Head of Private Sector Engagement will bring substantial experience of leading successful resource mobilisation efforts with private sector partners. Crucially, given the nature of the Fund's approach, this person will also possess a proven understanding of program delivery in low and middle income countries in order to facilitate technology transfer and the provision of innovative solutions. S/he will be a credible interlocutor with private sector partners in the design of actionable projects and initiatives. A skilled communicator and leader of teams, the new Head will be comfortable and effective in a multi-cultural context.

The Global Fund has retained Russell Reynolds Associates to assist with this appointment.
For further information on the position and additional details on qualifications, requirements, terms and conditions of service and how to apply, please visit: **www.rraresponses.com**
The closing date for applications is 9 May 2014

All appropriately qualified people regardless of sex, sexual orientation and/or gender identities, and individuals who are living with HIV are encouraged to apply.
The Global Fund Board is highly committed to diversity.

RUSSELL REYNOLDS ASSOCIATES

PUBLIC POWER CORPORATION S.A.

INVITATION TO SUBMIT AN EXPRESSION OF INTEREST FOR 66% OF THE SHARES IN THE INDEPENDENT POWER TRANSMISSION OPERATOR OF GREECE

Public Power Corporation S.A. ("PPC") of Greece, announces the invitation for expressions of interest from interested parties wishing to participate in an international public tender process (the "Tender Procedure") for the acquisition of a 66% participation in the share capital of the Independent Power Transmission Operator S.A. ("IPTO"), (the "Transaction").

1. BACKGROUND

The Independent Power Transmission Operator S.A. ("**IPTO**") is the Transmission System Operator and owner of the Hellenic Electricity Transmission System and is responsible for the Transmission System operation, maintenance and development. IPTO is a wholly owned subsidiary of Public Power Corporation S.A. ("PPC") and has been certified as an Independent Transmission Operator according to Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, and the Greek Law 4001/2011. By its Act no. 15 dated 24.07.2013 the Greek Cabinet approved the "PPC Restructuring and Privatization Plan", which provides, among other, for the ownership unbundling of IPTO from PPC by means of an international public tender process. According to article 1 of Law 4237/2014, the ownership unbundling of IPTO shall be effected via the sale by PPC of a 66% stake in the existing share capital of IPTO to an investor, while the remaining 34% is to be acquired by the Hellenic Republic. PPC, pursuant to the resolution of its Board of Directors dated 10.04.2014, decided to launch the Tender Procedure, as described in the Invitation for the Expression of Interest (the "**Invitation**"), which is available from 10.04.2014, on:

http://www.dei.gr/el/i-dei/i-etairia/expression-of-interest-ipto

Capitalized terms used in this announcement and not otherwise defined shall have the meaning given in the Invitation.

A short document relating to IPTO and the Transaction can be made available upon request.

2. TRANSACTION STRUCTURE

In the Invitation, PPC invites Interested Parties to submit their expressions of interest for the acquisition of a 66% participation in the share capital of IPTO through the conclusion of a Share Purchase Agreement (the "**SPA**") with PPC. The remaining 34% participation in the share capital of IPTO will be acquired by the Hellenic Republic ("**HR**"). The Preferred Investor and the HR shall also enter into a Shareholders' Agreement (the "**SHA**").

3. THE TENDER PROCESS

The Tender Procedure will be conducted in two (2) phases.

Phase A:

- Interested Parties are invited to express their interest to participate in the Tender Procedure by submitting an Expression of Interest along with a set of predetermined supporting documents, which must prove compliance with a set of pre-qualification criteria set out in the Invitation.
- The purpose of the Expression of Interest is the selection of Interested Parties that demonstrate the legal, financial and technical capacity required for the acquisition of a 66% participation in the share capital of IPTO.
- PPC and its advisors have established a set of predetermined legal, financial and technical criteria in order to assess eligibility of potential investors to participate in Phase B of the Tender Procedure. These criteria will form the basis of the evaluation process.

Phase B:

- Following execution of the relevant confidentiality agreement, Eligible Investors will receive a process letter (the "Request for Binding Offers" - "RfBO") with an overview of Phase B including instructions for the submission of binding offers, access to a virtual data room set up with respect to IPTO, in order to carry out their legal, financial, and technical due diligence review, vendor due diligence reports and draft transaction agreements (i.e. a draft SPA and a draft SHA).
- Eligible Investors will be able to submit Binding Offers that PPC will review along with any supporting documentation and evaluate those based on the criteria to be specified in the RfBO and/or during Phase B, in order to select the Preferred Investor.

Following the selection of the Preferred Investor, PPC and the Preferred Investor shall enter into the SPA, while the HR and the Preferred Investor shall enter into the SHA.

The definite timetable for Phase B will be described in detail in the RfBO.

4. SUBMISSION OF THE EXPRESSION OF INTEREST

Interested Parties who wish to participate in the Tender Procedure should submit an Expression of Interest in accordance with the requirements stated in the Invitation, by e-mail and by post, to HSBC Bank plc, 109-111 Messoghion Ave., 115 26, Athens, Greece and marked for the attention of Mr. Iakov Errera, E-mail: iakov.errera@hsbc.com. E-mail submissions must be received by no later than 17:00 (Greek time) on May 9, 2014, while hard copies must be posted no later than May 9, 2014.

5. CLARIFICATIONS

Interested Parties may submit requests for clarifications regarding the Expression of Interest by fax or email until 17:00 (Greek time) on April 28, 2014. Such requests should be addressed to Mr. Iakov Errera, Tel: +30 210 696 1504, Fax: +30 210 691 1901, Email: iakov.errera@hsbc.com and Mr. Theodoros Giatrakos, Tel: +44 (0)20 7986 8396, Fax: +44 (0)20 3364 2815, Email: theodoros.giatrakos@citi.com.

6. OTHER TERMS AND CONDITIONS

This communication has been prepared by, and is the sole responsibility of PPC and is being directed only at persons to whom it may be lawfully communicated under applicable law. It does not constitute any offering and, to the extent permitted by law, PPC and its advisors accept no responsibility in relation to it. This document is not intended to form the basis of any investment decision or investment recommendation made by PPC or any of its respective advisors and does not constitute the giving of investment advice by PPC or any of its respective advisors. The issuance of this communication in no way commits PPC to proceed with the Transaction pursuant to the Tender Procedure or at all. PPC reserves the right to amend the terms of, postpone or terminate the Tender Procedure without prior notice, to reject any or all of the Expressions of Interest and to terminate discussions with any or all Interested Parties at any time. No person acquires any right or claim for compensation or other from this communication, the Invitation or from their participation in the Tender Procedure, against PPC or its respective advisors for any reason or cause. For full terms and conditions please refer to the Invitation.

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REQUEST FOR PROPOSAL (RFP)

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Pakistan Railways intends to hire the services of National/ International Consultants or Consortium of Consultants, for carrying out Feasibility Study for laying new Rail Link between Islamabad/Rawalpindi - Muzaffarabad via Muree Hills.

Download RFP documents from

Pakistan Railways' Website: **www.pakrail.com**
or PPRA's Website: **www.ppra.org.pk**

First pre-bid conference will be held at 1100 hrs on May 07, 2014 in Railway Headquarters Office Lahore and second on May 23, 2014 in the Ministry of Railways at Islamabad.

Any further information can be obtained from: **censc@pakrail.com**

Submit proposal only on PRESCRIBED FORMAT at the following address on or before **May 31, 2014 up to 02:00 PM.**

- Japan External Trade Organization (JETRO) ranks Pakistan as 2nd in the world in terms of business growth.
- "Pakistan has potential of becoming 18th largest economy by 2050", Jim O'Neill (renowned economist).
- Investors are heading to Pakistan due to investment - friendly policies of the new government, says Wall Street Journal.

BASHARAT WAHEED
Chief Engineer (Survey and Construction)

Pakistan Railways

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Economic and financial indicators

Economic data

% change on year ago

	Gross domestic product latest	Gross domestic product qtr*	Gross domestic product 2014†	Industrial production latest	Consumer prices latest	Consumer prices 2014†	Unemployment rate, %	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2014†	Budget balance % of GDP 2014†	Interest rates, % 10-year gov't bonds, latest	Currency units, per $ Apr 15th	Currency units, per $ year ago
United States	+2.6 Q4	+2.6	+2.8	+3.0 Feb	+1.5 Mar	+1.7	6.7 Mar	-379.3 Q4	-2.1	-2.9	2.62	-	-
China	+7.4 Q1	+5.7	+7.3	+8.8 Mar	+2.4 Mar	+2.8	4.1 Q4§	+188.6 Q4	+1.7	-2.2	4.16§§	6.22	6.19
Japan	+2.6 Q4	+0.7	+1.2	+7.0 Feb	+1.5 Feb	+2.6	3.6 Feb	+21.3 Feb	+0.5	-8.1	0.61	102	98.0
Britain	+2.7 Q4	+2.7	+2.9	+2.7 Feb	+1.6 Mar	+1.9	7.2 Dec††	-111.7 Q4	-3.3	-5.4	2.67	0.60	0.65
Canada	+2.7 Q4	+2.9	+2.3	+3.4 Jan	+1.1 Feb	+1.5	6.9 Mar	-58.9 Q4	-2.8	-2.6	2.39	1.10	1.02
Euro area	+0.5 Q4	+0.9	+1.1	+1.7 Feb	+0.5 Mar	+0.9	11.9 Feb	+298.0 Jan	+2.3	-2.5	1.47	0.72	0.76
Austria	+1.1 Q4	+1.8	+1.3	+5.0 Jan	+1.5 Feb	+1.7	4.8 Feb	+11.2 Q4	+3.1	-3.0	1.71	0.72	0.76
Belgium	+1.0 Q4	+2.0	+1.2	+3.7 Jan	+0.9 Mar	+1.1	8.5 Feb	-8.0 Dec	-0.8	-2.5	2.09	0.72	0.76
France	+0.8 Q4	+1.2	+0.8	-0.8 Feb	+0.6 Mar	+1.1	10.4 Feb	-33.0 Feb	-1.6	-4.2	1.95	0.72	0.76
Germany	+1.4 Q4	+1.5	+1.8	+4.8 Feb	+1.0 Mar	+1.3	6.7 Mar	+278.5 Feb	+6.8	+0.5	1.47	0.72	0.76
Greece	-2.3 Q4	na	nil	+1.6 Feb	-1.3 Mar	-1.0	27.5 Dec	+1.6 Jan	+1.4	-3.5	6.29	0.72	0.76
Italy	-0.9 Q4	+0.3	+0.5	+0.4 Feb	+0.4 Mar	+0.7	13.0 Feb	+19.7 Jan	+1.0	-3.3	3.11	0.72	0.76
Netherlands	+0.8 Q4	+3.7	+0.9	+5.2 Feb	+0.8 Mar	+1.0	8.8 Feb	+83.1 Q4	+9.9	-3.0	1.87	0.72	0.76
Spain	-0.1 Q4	+0.7	+0.8	+3.2 Feb	-0.1 Mar	+0.4	25.6 Feb	+10.0 Jan	+1.4	-5.8	3.12	0.72	0.76
Czech Republic	+0.8 Q4	+7.5	+1.6	+6.8 Feb	+0.2 Mar	+1.0	8.3 Mar§	-2.9 Q4	-1.2	-2.9	1.99	19.9	19.7
Denmark	+0.5 Q4	-2.3	+1.2	-0.2 Feb	+0.4 Mar	+1.3	5.3 Feb	+24.8 Feb	+6.2	-1.7	1.51	5.40	5.70
Hungary	+2.7 Q4	+2.2	+2.1	+8.0 Feb	+0.1 Mar	+1.4	8.6 Feb§††	+3.9 Q4	+1.9	-3.0	5.64	223	225
Norway	+1.1 Q4	-0.7	+2.1	+4.4 Feb	+2.0 Mar	+2.1	3.5 Jan‡‡	+54.5 Q4	+12.1	+12.0	2.85	5.95	5.73
Poland	+2.7 Q4	na	+3.2	+5.3 Feb	+0.7 Mar	+1.3	13.6 Mar§	-5.8 Feb	-1.4	-3.5	4.12	3.03	3.13
Russia	+2.0 Q4	na	+1.2	+1.3 Mar	+6.9 Mar	+6.0	5.6 Feb§	+36.1 Q1	+1.3	-0.2	9.23	36.1	31.4
Sweden	+3.1 Q4	+7.1	+2.5	+1.7 Feb	-0.6 Mar	+0.6	8.5 Feb§	+34.6 Q4	+6.0	-2.0	2.03	6.57	6.38
Switzerland	+1.7 Q4	+0.6	+2.0	+0.4 Q4	nil Mar	+0.3	3.2 Mar	+84.4 Q4	+11.3	+0.5	0.88	0.88	0.93
Turkey	+4.4 Q4	na	+2.2	+4.9 Feb	+8.4 Mar	+9.1	10.1 Jan§	-62.2 Feb	-6.0	-2.7	10.22	2.14	1.79
Australia	+2.8 Q4	+3.2	+2.7	+2.8 Q4	+2.7 Q4	+2.8	5.8 Mar	-44.2 Q4	-2.9	-1.9	3.99	1.07	0.97
Hong Kong	+3.0 Q4	+4.4	+3.4	+0.5 Q4	+3.9 Feb	+3.6	3.1 Feb‡‡	+5.6 Q4	+2.9	+1.4	2.23	7.75	7.76
India	+4.7 Q4	+3.2	+6.0	-1.9 Feb	+8.3 Mar	+8.0	9.9 2012	-49.2 Q4	-2.6	-5.1	8.96	60.2	54.6
Indonesia	+5.7 Q4	na	+5.4	+3.8 Feb	+7.3 Mar	+6.9	5.8 Q4§	-28.5 Q4	-3.5	-2.3	na	11,430	9,712
Malaysia	+5.1 Q4	na	+5.1	+6.8 Feb	+3.5 Feb	+3.2	3.3 Jan§	+11.7 Q4	+5.3	-4.1	4.09	3.24	3.04
Pakistan	+6.1 2013**	na	+3.9	+2.6 Jan	+8.5 Mar	+6.9	6.2 2013	-4.0 Q4	-2.1	-6.3	12.85†††	96.0	98.3
Singapore	+5.1 Q1	+0.1	+4.2	+12.8 Feb	+0.4 Feb	+2.7	1.8 Q4	+54.4 Q4	+19.6	+0.7	2.42	1.25	1.24
South Korea	+3.6 Q4	+3.6	+3.3	+4.3 Feb	+1.3 Mar	+1.6	3.9 Mar§	+83.6 Feb	+4.6	+0.5	3.54	1,041	1,121
Taiwan	+2.9 Q4	+7.3	+3.2	+7.0 Feb	+1.6 Mar	+1.1	4.1 Feb	+57.4 Q4	+11.3	-2.1	1.58	30.2	29.9
Thailand	+0.4 Q4	+2.4	+2.5	-4.4 Feb	+2.1 Mar	+2.7	0.9 Feb§	-2.8 Q4	+2.6	-2.3	3.65	32.3	29.0
Argentina	+5.5 Q3	-0.7	-0.7	-0.5 Feb	— ***	—	6.4 Q4§	-4.3 Q4	-0.1	-2.4	na	8.00	5.15
Brazil	+1.9 Q4	+2.8	+1.8	+5.0 Feb	+6.2 Mar	+6.2	5.1 Feb§	-82.5 Feb	-3.6	-4.0	12.69	2.23	1.98
Chile	+2.7 Q4	-0.3	+3.8	+2.6 Feb	+3.5 Mar	+3.3	6.1 Feb§‡‡	-9.5 Q4	-3.9	-1.2	4.91	554	472
Colombia	+4.9 Q4	+3.3	+4.7	+3.6 Feb	+2.5 Mar	+2.8	10.7 Feb§	-12.7 Q4	-3.6	-0.9	6.29	1,931	1,835
Mexico	+0.7 Q4	+0.7	+3.0	+0.7 Feb	+3.8 Mar	+4.5	4.7 Feb	-22.3 Q4	-1.6	-3.7	7.75	13.1	12.2
Venezuela	+1.1 Q3	-0.8	-1.9	+0.8 Sep	+57.4 Feb	+61.0	7.2 Feb§	+6.9 Q3	+1.6	-12.0	12.77	6.29	6.29
Egypt	+1.4 Q4	na	+2.0	-8.2 Feb	+9.9 Mar	+9.9	13.4 Q4§	-3.3 Q4	-2.4	-12.5	na	6.98	6.89
Israel	+3.7 Q4	+3.2	+3.4	+1.7 Jan	+1.3 Mar	+1.5	5.8 Feb	+7.2 Q4	+2.9	-2.8	3.46	3.47	3.63
Saudi Arabia	+3.8 2013	na	+4.0	na	+2.6 Mar	+3.2	5.6 2013	+134.3 Q4	+13.0	+1.9	na	3.75	3.75
South Africa	+2.0 Q4	+3.8	+2.5	+1.6 Feb	+5.9 Feb	+5.7	24.1 Q4§	-20.5 Q4	-6.2	-4.3	8.33	10.6	9.12

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, February 32.22%; year ago 25.71% †††Dollar-denominated bonds.

Markets

	Index Apr 15th	% change on one week	Dec 31st 2013 in local currency	Dec 31st 2013 in $ terms
United States (DJIA)	16,262.6	nil	-1.9	-1.9
China (SSEA)	2,200.4	+0.2	-0.6	-3.3
Japan (Nikkei 225)	13,996.8	-4.2	-14.1	-11.2
Britain (FTSE 100)	6,541.6	-0.7	-3.1	-2.1
Canada (S&P TSX)	14,303.9	-0.5	+5.0	+1.6
Euro area (FTSE Euro 100)	1,011.5	-2.7	-0.8	-0.5
Euro area (EURO STOXX 50)	3,091.5	-2.7	-0.6	-0.2
Austria (ATX)	2,440.4	-2.4	-4.2	-3.9
Belgium (Bel 20)	3,047.1	-1.6	+4.2	+4.6
France (CAC 40)	4,345.4	-1.8	+1.1	+1.5
Germany (DAX)*	9,173.7	-3.3	-4.0	-3.7
Greece (Athex Comp)	1,187.0	-8.7	+2.1	+2.4
Italy (FTSE/MIB)	20,817.5	-3.9	+9.8	+10.1
Netherlands (AEX)	392.7	-2.5	-2.3	-2.0
Spain (Madrid SE)	1,033.6	-3.6	+2.1	+2.5
Czech Republic (PX)	996.0	+0.4	+0.7	+0.7
Denmark (OMXCB)	611.8	-2.6	+8.1	+8.4
Hungary (BUX)	17,345.6	-3.9	-6.6	-9.7
Norway (OSEAX)	609.5	+0.1	+1.1	+3.1
Poland (WIG)	51,263.9	-2.3	nil	-0.6
Russia (RTS, $ terms)	1,143.0	-4.4	-12.9	-20.8
Sweden (OMXS30)	1,329.3	-2.4	-0.3	-2.5
Switzerland (SMI)	8,280.5	-1.7	+0.9	+2.1
Turkey (BIST)	72,438.0	-2.0	+6.8	+7.2
Australia (All Ord.)	5,380.3	-0.5	+0.5	+5.5
Hong Kong (Hang Seng)	22,671.3	+0.3	-2.7	-2.7
India (BSE)	22,484.9	+0.6	+6.2	+9.1
Indonesia (JSX)	4,870.2	-1.0	+13.9	+21.3
Malaysia (KLSE)	1,853.9	+0.1	-0.7	+0.3
Pakistan (KSE)	29,095.8	+1.5	+15.2	+26.2
Singapore (STI)	3,246.3	+1.3	+2.5	+3.2
South Korea (KOSPI)	1,992.3	nil	-0.9	+0.4
Taiwan (TWI)	8,916.7	+0.3	+3.5	+2.3
Thailand (SET)	1,389.2	+0.7	+7.0	+8.9
Argentina (MERV)	6,316.4	-2.6	+17.2	-4.6
Brazil (BVSP)	50,454.4	-2.3	-2.0	+3.6
Chile (IGPA)	19,010.3	+1.4	+4.3	-1.2
Colombia (IGBC)	13,808.3	nil	+5.6	+5.7
Mexico (IPC)	40,481.8	-1.0	-5.3	-5.3
Venezuela (IBC)	2,472.5	-2.0	-9.7	na
Egypt (Case 30)	8,026.9	+4.2	+18.3	+17.8
Israel (TA-100)	1,266.6	-1.1	+4.9	+5.0
Saudi Arabia (Tadawul)	9,505.0	-0.6	+11.4	+11.4
South Africa (JSE AS)	47,789.8	-0.6	+3.3	+2.5

Taxing wages

The "tax wedge", the difference between total labour costs to the employer and employees' take-home pay, rose by 0.2 percentage points to 35.9% in 2013. Of the 34 mostly rich countries in the OECD, 25 reported a rise in the tax burden in the past three years. The largest increase in the tax wedge was in Portugal. America's wedge also grew as reductions in employees' Social Security contributions expired. Overall, there has been little change in taxation for single workers, which in all OECD countries except Mexico and Chile is higher than it is for those with families. Belgium's tax wedge remains the biggest, at 55.8%; that is more than double the figure in Mexico and New Zealand—and eight times that in Chile.

Gap between labour costs and take-home pay
As % of total labour costs*, 2013

Source: OECD

*Single person without children with average earnings

Other markets

	Index Apr 15th	% change on one week	Dec 31st 2013 in local currency	Dec 31st 2013 in $ terms
United States (S&P 500)	1,843.0	-0.5	-0.3	-0.3
United States (NAScomp)	4,034.2	-1.9	-3.4	-3.4
China (SSEB, $ terms)	230.9	+1.1	-6.4	-9.0
Japan (Topix)	1,136.1	-3.3	-12.8	-9.8
Europe (FTSEurofirst 300)	1,306.9	-2.0	-0.7	-0.4
World, dev'd (MSCI)	1,646.7	-1.0	-0.9	-0.9
Emerging markets (MSCI)	999.9	-1.1	-0.3	-0.3
World, all (MSCI)	405.3	-1.0	-0.8	-0.8
World bonds (Citigroup)	940.4	+0.5	+3.7	+3.7
EMBI+ (JPMorgan)	681.4	+0.1	+4.6	+4.6
Hedge funds (HFRX)	1,224.4§	-0.6	-0.1	-0.1
Volatility, US (VIX)	15.6	+14.9	+13.7	(levels)
CDSs, Eur (iTRAXX)†	74.4	+4.4	+1.6	+1.9
CDSs, N Am (CDX)†	69.0	+1.8	+8.4	+8.4
Carbon trading (EU ETS) €	5.6	+13.8	+11.3	+11.7

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §Apr 14th.

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The Economist commodity-price index

2005=100

	Apr 8th	Apr 14th*	% change on one month	% change on one year
Dollar Index				
All Items	174.1	174.7	+1.3	-0.4
Food	204.2	204.2	+0.8	+2.0
Industrials				
All	142.8	144.0	+2.0	-3.7
Nfa†	151.2	149.8	-4.0	-7.7
Metals	139.2	141.6	+5.0	-1.8
Sterling Index				
All items	189.0	189.8	+0.3	-9.0
Euro Index				
All items	156.9	157.2	+2.0	-5.4
Gold				
$ per oz	1,309.3	1,328.8	-2.2	-4.4
West Texas Intermediate				
$ per barrel	102.6	103.7	+4.0	+17.0

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional
†Non-food agriculturals.

Eleanor Drew

Eleanor Drew (née Nellie Darlison), star of "Salad Days", died on March 31st, aged 91

VIVACITY and mischief were in short supply in post-war Britain. In a world marked by austerity and the survival of fussiness and pomposity, "Salad Days", a seemingly nonsensical love story, struck a chord. Its five-year run in the West End was rivalled only by "My Fair Lady", the musical version of George Bernard Shaw's "Pygmalion".

But the enchanted world of parks and Oxford quads in which "Salad Days" was set was as foreign to its star, Eleanor Drew, as London high society was to Eliza Doolittle. Though few knew it, London's most popular musical actress had been born Nellie Darlison, within earshot of Bow Bells. Her formal education ended not with a summer ball or finishing school, but when she left school at 16. As a toddler, she entertained neighbours and guests by singing comic songs: a favourite was "Felix kept on Walking", about the misadventures of the cartoon character Felix the Cat. As the tips mounted up, her mother took her from their two-room tenement to tea-houses and cafés in the gritty, greasy East End, where the little girl would stand on a table and sing for her fatherless family's supper.

A scholarship to a grammar school, and the civil service exam, took her out of that life—but not far enough. She ended up as a quality controller in a munitions factory. It was a dull job, and the young Nellie kept her spirits up by singing along to the radio show "Music While You Work".

A supervisor was perhaps her first real fan. "You're wasted here," he told her. When she brushed his compliments aside, he found a newspaper advertisement for singing lessons and pestered her to give it a try. But the lessons were half a crown each: 12.5p in decimal money, or 21 cents, far too much for a factory worker. She turned to go, but once the teacher heard her sing, he offered a big discount: 15 shillings (75p) for ten lessons. And when he'd taught her, he helped her get a job: only in the chorus of "The Quaker Girl" to start with, but still a foothold in a new world. Nellie Darlison became Eleanor Drew: auburn hair shining, eyes flashing, and with a cut-glass posh accent, acquired in elocution lessons, to be deployed when needed.

It all helped to make her a perfect Jane. The main role in "Salad Days" is the poshest of daughters, harum-scarum and unpunctual, revelling in summer, sunshine and falling in love with her new boyfriend: "as young and as green as the leaves on the tree, for these are our salad days". Miss Drew did not conceal her background—how could she, when her hit song ran "Sometimes we may pretend to forget, but of course we never will". Her past was no disgrace. But she was proud that her talents had let her escape it. Her best memory of the show came from the first-night party, when she overheard a grandee saying "That girl's absolutely perfect for the part—you can always tell class when you see it."

The queen's favourite song

The musical—jotted down in three weeks by Julian Slade for a short end-of-season run at the Bristol Old Vic—was an accidental success. Miss Drew and the rest of the cast came to London expecting a short run. Within months she and they were stars.

No thanks to the critics. They praised her poise and voice (the show makes demands on its female lead which today's professionals, reared on simpler songs, find challenging). But by the grittier standards of later years, the feathery music and undergraduate banter seemed ridiculous. In 1959 Jerome Robbins, then the toast of America, visited Britain to try out his sizzling new production and get a feel for the competition. Told of the plot and lyrics of London's longest-running musical, his response was, "You're kidding." As a barbed entry in the "Cambridge Companion to the Musical" notes: "How could you explain to one of the creators of such a socially aware show as "West Side Story" that its main rival, seen by some five million people, concerned a magic piano?"

Such snooty incomprehension missed the edge and depth behind "Salad Days", with its digs about censorship, secrecy, class divisions, and most of all the stifling pressures of conformity and parental control. "We said we wouldn't look back", a poignant reflection on memory, nostalgia and the passing of years, is said to be the queen's favourite song; Miss Drew sang it to her at the Royal Variety Performance in 1955, and bands have played it at royal events ever since.

But the show's record-breaking success was the end of her career. The producers refused to release her from her contract for a role she yearned for in a new musical, which had been specially written for her. Her next show turned out to be designed for failure, for mysterious tax reasons. Then came one with an all-star cast which proved fatally plagued by squabbles. Just as she had left the East End ten years earlier, it was time to move on. The fun, she said, had gone out of it. Better to enjoy her three children (another came soon afterwards), and her third marriage, at last a happy one, to another singer, Jon Barkwith, who survives her.

She sang for the rest of her life, though not professionally. She ran an antiques shop and then a successful hotel in Wales, much favoured by London showbiz types wanting a break from the pressured world that Miss Drew had already left behind her, lightly, gracefully and decisively. ■

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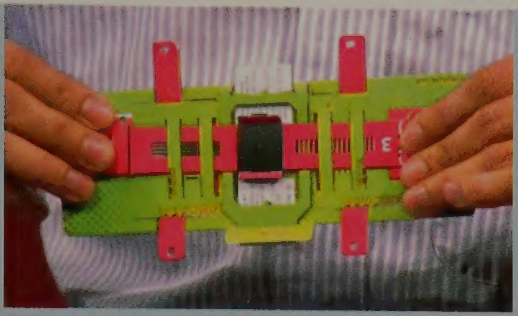

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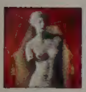

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